

Wildrose Alliance Balanced Budget Initiative

Turning the Tide on a Sea of Red Ink

Budget 2010 is a stunning illustration of the profound mismanagement of our province's finances by this PC Government.

According to Budget 2010, the Government of Alberta (GOA) is expecting to spend roughly \$38.7 billion this year, against revenues of approximately \$34 billion. This implies a budgetary deficit of \$4.7 billion. An additional \$2.8 billion in 'capital investment' is not accounted for in the Government's current deficit projection (see p.18 of the GOA's Fiscal Plan). This brings the GOA's real cash deficit to a staggering \$7.55 billion which it plans on financing using debt (now estimated at \$4.425 billion) and draining the province's Sustainability Fund from roughly \$15 billion last year to \$8.2 billion this year, and optimistically, down to \$2.8 billion by 2012.

This vast swath of red ink is similar to that of Budget 2009 and is evidence this Government has yet again failed to bring spending under control despite repeated warnings to do so or face the prospect of higher taxes, a return to massive debts, and the erosion of the Alberta Advantage.

A Wildrose Alliance government would not permit this to happen. Although Albertans expect their elected representatives to protect frontline social programs (health, education, PDD) while providing critical public infrastructure, they also expect their government to responsibly protect the Alberta Advantage, live within their means, and prioritize needs before wants.

Although erasing the \$7.55 billion cash deficit in one year is not practically possible without heavy cuts, the Wildrose Alliance Opposition caucus believes the Government can cut this cash deficit by approximately \$4.668 billion to roughly \$2.882 billion (a 62% reduction from the Government's projected cash deficit of \$7.55 billion) by implementing the following spending adjustments:

- Spread the \$20.1 billion capital budget over 4.5 years rather than 3 years. This yields a budgetary savings of nearly **\$2.79 billion** in 2010 alone. This would still leave Alberta's per person capital expenditures slightly above that of British Columbia and behind only Quebec and Newfoundland.

- Increase Health and Education operational spending in line with inflation plus population growth (3.5%) rather than the astounding Budget 2010 increases of 13.7% (Health) and 4.6% (Education). This would yield **\$1.33 billion** in savings for 2010.
- Delay the Green TRIP mass transit initiative until economic conditions improve for savings totalling **\$70 million**.
- Cancel the wasteful and unproven \$2 billion Carbon Capture and Storage experiment saving Albertans **\$100 million** this year.
- Eliminate Alberta's Venture Capital Fund. Government should not be allocating funds to private business ventures. This would save **\$100 million** in 2010.
- Cut corporate subsidies for product commercialization. The government has no business being in business. This would save Albertans an additional **\$110 million** in Budget 2010.
- Terminate the Alberta Livestock and Meat Agency. Marketing beef is a role for private farmers, agricultural marketing organizations and private business, not the Government of Alberta. This correction will save roughly **\$50 million** in 2010.
- Reduce the size of cabinet from 23 to 16 by combining, among others, Infrastructure with Transportation, Treasury Board with Finance and Enterprise, and Municipal Affairs with Housing and Urban Affairs. This will save Albertans approximately **\$44 million**.
- End the direct subsidization of horse racing to the tune of **\$25 million** per year.
- Through retirement and natural attrition, increase the Government's worker to manager ratio from 4:1 to 12:1 (the ratio in the private sector can be as high as 25:1). This will save Albertans approximately **\$35 million** this year alone.
- Cut the Government's communications (public affairs) budget in half saving **\$7 million**.
- End Executive Council's wasteful 'rebranding initiative' and save **\$7 million** this year alone.

PC Government's Real Cash Deficit	\$7.550 billion
Total Deficit Savings under the Wildrose Alliance plan	\$4.668 billion
Revised Wildrose Alliance Cash Deficit	\$2.882 billion

These proposed adjustments would not cut the government services Albertans deem most important, such as health care, education, PDD, seniors or public security. They would simply limit their departmental increases to the rate of inflation plus population growth. More importantly, these adjustments make it possible to eliminate the province's real cash deficit by next year without the need to deeply cut core

social programs. The PC Government, even if all their rose-coloured projections pan out, will keep Alberta in a cash deficit position well past 2012 (contrary to their claims of being back in the black by that time).

It should also be noted that these proposed adjustments do not take into account the billions more in potential savings that would be achieved through much needed systemic reforms to our public health care system and other high-cost government social programs, as well as negotiating a much a fairer equalization arrangement with Ottawa (both of which this PC Government have utterly failed to accomplish).

The Hidden Cash Deficit

The Government of Alberta is claiming a \$4.7 billion deficit in Budget 2010. But that is not the whole story. There is at least one large set of expenses that is not included in the budget deficit. Total capital spending is projected to be \$7.2 billion, yet only \$4.4 billion in infrastructure spending appears in the budget. An additional \$2.8 billion of ‘capital investment’ in government owned assets is not included in the government’s quoted deficit number (see p.18 of the GOA’s Fiscal Plan). Therefore, the Government of Alberta’s true cash deficit is:

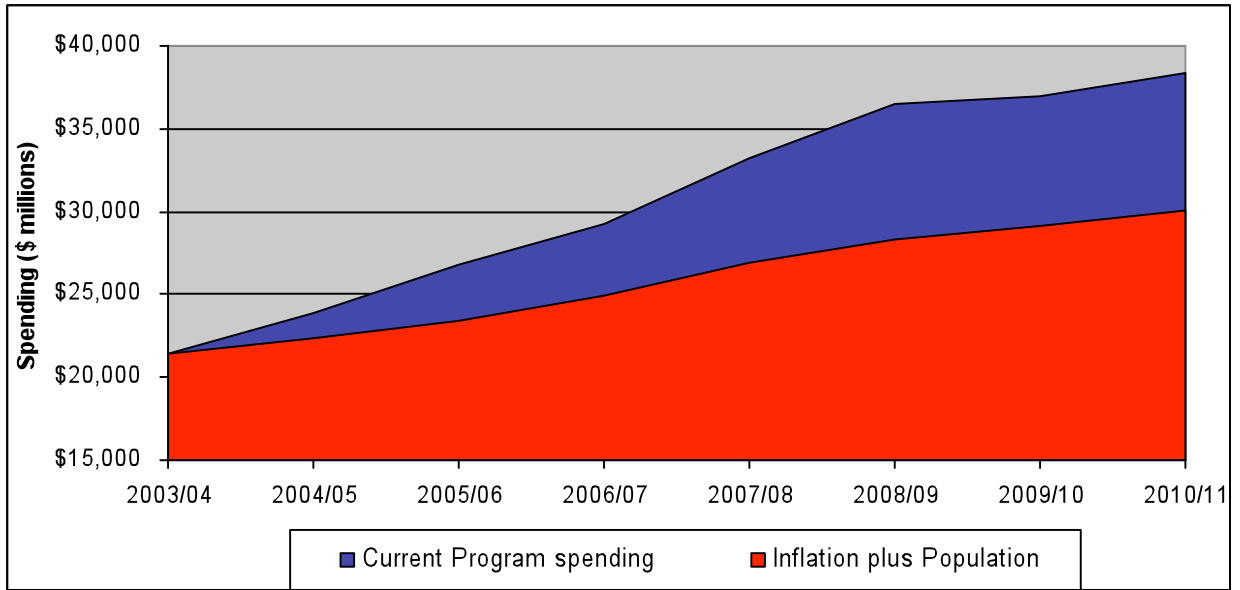
Announced Budget Deficit:	\$4.748 billion
Capital Spending not Included as a Budget Expense	\$2.802 billion
Total Cash Deficit	\$7.550 billion

While our budget proposals would reduce this cash deficit substantially to roughly \$2.882 billion, this PC Government has been so fiscally irresponsible that it would be impossible to balance the books in cash terms without more aggressive cuts to public spending which would not be prudent in today’s market conditions.

How Did We Get Into This Mess?

Alberta has not been in a deficit position since Don Getty was premier. It is clear that since the late Klein years and throughout the entire Stelmach administration, this PC Government has allowed spending to run completely out of control. Beginning in the 2003-2004 budget year, if the government had merely restrained spending increases to the rate of inflation plus population growth, overall spending would have been approximately \$8.3 billion less than currently projected. This is illustrated in Figure 1.

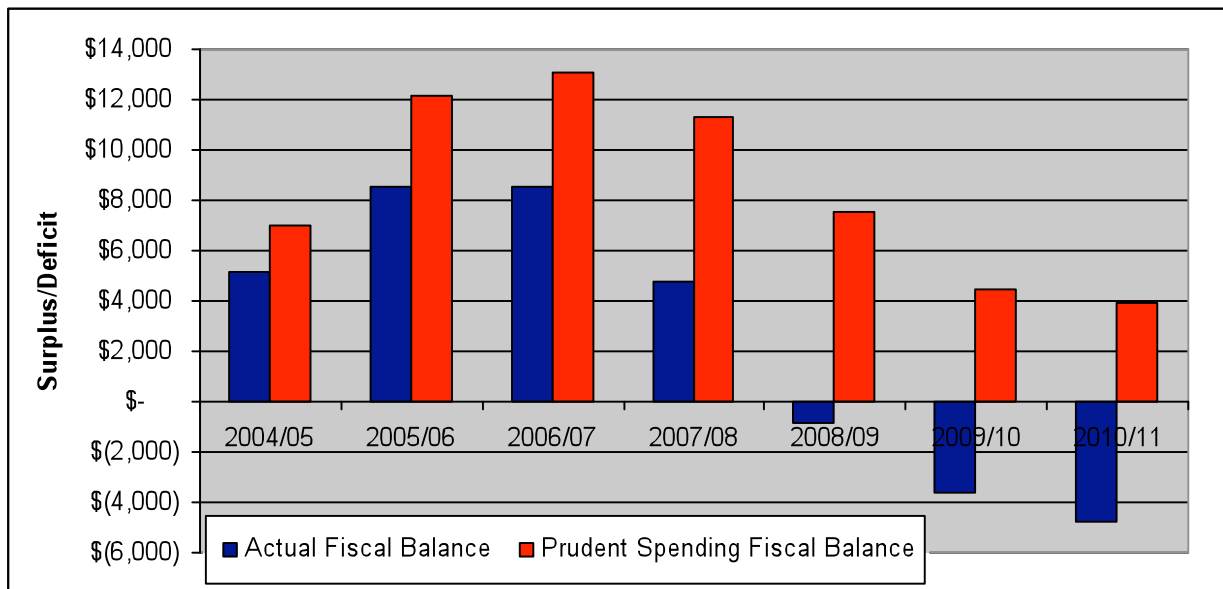
Figure 1
Actual and Restrained Spending



Source: Alberta Budget 2010

Furthermore, as shown in Figure 2, following this path of restrained spending would have resulted in larger surpluses which could have been used to build savings in the Heritage Trust Fund.

Figure 2
Actual deficit and Deficit under Restrained Spending Regime



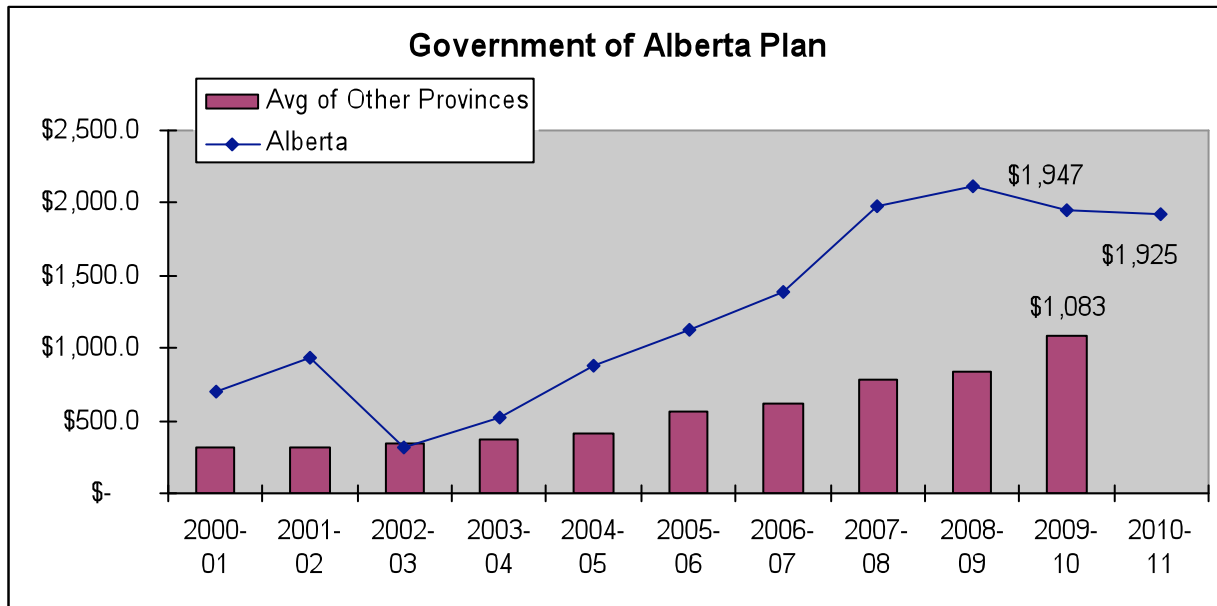
Source: Alberta Budget 2010

Had both Mr. Ralph Klein (during his last four years) and Premier Ed Stelmach exercised fiscal prudence and held total government spending growth to the rate needed to keep up with inflation and population growth, Alberta would today be looking at a budget surplus of \$3.9 billion rather than a record deficit.

Restoring Alberta's Fiscal Health

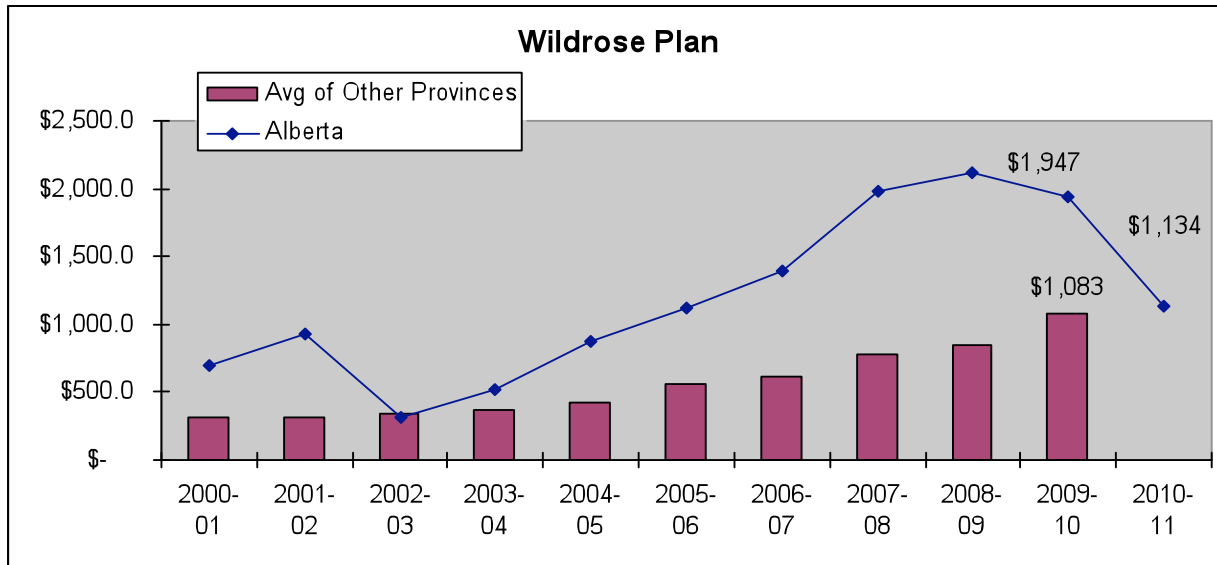
The budget deficit can be dealt with by implementing some simple, fiscally responsible strategies. First, as noted above, the current 3-year capital budget should be spread out over 4.5 years and then kept in line with the rate of inflation and population growth. We currently spend about two times more per person on capital spending than any other province. Bringing our level of capital spending down to slightly more than British Columbia (and behind only Quebec and Newfoundland) would save future Albertans a great deal of inflation and unnecessary debt. This is illustrated in Figures 3 and 4.

Figure 3
Per Capita Capital Spending
Government of Alberta Plan



Source: DBRS, 2009 (2000-01 to 2009-10) and Alberta Budget 2010 (2010-11)

Figure 4
Per Capita Capital Spending
Wildrose Plan



Source: DBRS, 2009 (2000-01 to 2009-10) and Alberta Budget 2010 (2010-11)

Over the long term, the Government of Alberta must begin to practice good old fashioned fiscal restraint. Clearly, non renewable resource revenues are very volatile. In Alberta we have developed a reliance on these revenues to feed our spending habits. We need to decrease this reliance on non renewable resource revenues by first limiting overall government expenditure growth to the rate of inflation plus population growth. By practicing this kind of fiscal restraint, our revenues will soon begin to outstrip expenditures again. This will in turn place us in a position to allocate significant percentages of non renewable resource revenues into the Heritage Fund. As the Heritage Fund increases in size over time, the interest earned from the fund will not only eventually replace our reliance on volatile oil and gas resource revenues, it will also provide us the opportunity to significantly reduce personal and business income taxes over time.

It is time to restore Alberta's fiscal health and bring back the Alberta Advantage. By accepting the proposed amendments and recommendations of the Wildrose Alliance caucus outlined above, our province will be well on its way in doing so.