



*2016 Provincial Budget
Analysis by AUMA*

April 14, 2016

Budget 2016—The Alberta Jobs Plan

The provincial budget was released on April 14, 2016. It has the following four components within the theme of *The Alberta Jobs Plan*:

- **Supporting families and communities** with funding for Alberta Child Benefits, Family Tax Credits, income supports, health care, and carbon rebates for lower and middle-income Albertans.
- **Investing in infrastructure** including municipal, schools, health care and continuing care, affordable housing and transportation infrastructure.
- **Diversifying energy industry and energy market** by setting a price on carbon, phasing out coal and investing in renewable energy, green infrastructure and energy efficiency.
- **Supporting Alberta businesses** by reducing the small business corporate income tax rate by one third (from three per cent to two per cent) and providing tax credits and training opportunities.

The budget projects dramatically reduced provincial revenues, with royalty revenue dipping to the lowest it has been in over four decades. Consequently, the province is taking on debt of almost \$58 billion within three years, with no expectations to balance the books before 2024. This year's deficit is over \$10 billion.

Only some pledges to municipalities were honored

AUMA has been diligent in advocating for increased funding to support municipal infrastructure and services. While the government had responded last fall with pledges to increase funding in 2016-17, a number of these pledges were not fulfilled.

It is particularly concerning that the MSI program was unexpectedly reduced, despite frequent pledges by the province that it would be significantly increased in Budget 2016. Given the series of funding reductions since the program was launched in 2007, MSI will not meet its \$11 billion targeted funding within the committed 10 year period. As funding beyond 2016-17 is not covered by the MSI funding agreement, the province is working on a plan to ensure infrastructure funding continues to flow to municipalities. AUMA expects to provide input into the replacement funding program.

The following table compares pledged funding to actual budget allocations.

Program	Pledge	Actual	Comments
Municipal Sustainability Initiative (MSI) Capital	increase by \$50 million	decrease of \$50 million	Given the pledge had been to increase funding by \$50 million, this decrease represents an unexpected total loss of \$100 million for municipal infrastructure.

Alberta Municipal Water and Wastewater Partnership	increase by \$25 million	increase of \$25 million	The five-year capital plan includes a commitment to keep funding at this level through to Budget 2017, but it will drop in subsequent years, sending a clear signal that the province expects to see greater cost recovery and a continued move towards regional solutions.
Regional Water/Wastewater Projects (Water for Life)	increase by \$50 million	increase of \$50 million	While funding levels will likely drop by \$25 million in Budget 2017, the five year capital plan includes a commitment to increase funding to \$105 million in Budget 2018 and then hold funding at \$80 million in 2019 and 2020.
Building Canada Fund Provincial/Regional Component	Consider using for municipal projects	Pledged to allocate \$300 million	The province pledged to allocate \$300 of the remaining \$700 million federal funding for municipal projects. Municipal Affairs advises that AUMA will be consulted on the funding mechanism.
New fund to enhance rural bus services	\$8 million in new funding	No funds allocated	The province indicates funding had to be deferred.
Reinstatement of the Summer Temporary Employment Program (STEP)	\$10 million of new funding	\$10 million	AUMA had been calling for the reinstatement of this program since its termination in 2013. Of the total program funding, about \$2 million will flow to municipalities who hire summer workers to help deliver programs and services. STEP is also a critical workforce resource for Alberta's non-profit organizations.

The province's decision not to reinstate the Grants in Lieu of Taxes (GILT) on government-owned and supported social housing is disappointing given the extensive advocacy of AUMA and our members. As outlined in our advocacy, this amounts to a downloading of about \$15 million in costs onto municipalities. AUMA will continue to advocate for the legislation of GILT as a provincial responsibility.

Summary of municipal impacts

Core capital grants to municipalities (\$ millions)

Grant	Budget 2015-16	Budget 2016-17	Comment
Municipal Sustainability Initiative (MSI) - Capital	497.1*	846.0	*\$398.9 million was advanced in late 2014-15 but treated as part of the 2015-16 program. This advance meant the 2015-16 program actually represented a total of \$896 million. Therefore, the net change in the budget is a \$50 million reduction compared to the \$50 million increase that had been pledged. MSI Capital is budgeted to remain at \$846 million for three years.
Basic Municipal Transportation Grant	349.8	359.5	Funding is forecasted to increase by \$10 million each year until 2019-20.
Gas Tax Fund (GTF)	209.3	219.1	Distributed based on the federal funding formula.
New Building Canada - Small Communities Fund	56.2	74.0	All of the funding for this program was allocated in 2015-16 to 56 projects in 53 municipalities. This 2016-17 budget simply reflects the cash flows associated with these earlier approved projects. No new funding has been allocated for the program.
GreenTRIP	166.2	125.0	The decrease reflects the timing of approval and completion of projects. Funding is forecasted to increase to \$255 million in 2017-18.
Water for Life	30.0	80.0	The province met its pledged increase of \$50 million.
Municipal Water and Wastewater Program	25.0	50.0	The province met its pledged increase of \$25 million.
Strategic Transportation Infrastructure Program	18.7	-	Consultations are underway to roll out a new program with a \$35 million budget in 2017-18.
Municipal Transit Initiative	30.0	-	In 2015-16, this represented the New Building Canada Funding for the Edmonton Valley Line LRT. Budget 2017-18 has a commitment of \$100 million plus \$60 million for the Edmonton LRT.
AB Municipal Infrastructure Program	0.1	-	The program is complete.
Flood Recovery / Mitigation	81.0	89.9	Budget 2016-17 includes \$75.7 million for Community Stabilization (increased by \$25.2 million) and \$14.2 million for High River's Long Term Recovery. 2015-16 funding included support for the recovery of water and wastewater and school facility infrastructure that was impacted in the 2013 floods.
Total	\$1,463.4	\$1,843.5	If the \$398.9 million of MSI Capital is included in the 2015-16 Budget figure, then total funding for 2016-17 actually decreases by \$18.8 million.

Core operating grants to municipalities (\$ millions)

Grant	Budget 2015-16	Budget 2016-17	Comment
Municipal Sustainability Initiative (MSI) - Operating	30.0	30.0	Continued investment in this program is critical; in particular for smaller municipalities.
Alberta Community Partnerships	40.0	20.0	The 50% decrease in funding is concerning as it impairs regional collaboration. The \$20 million budget includes \$7.5 million for viability reviews, \$5.4 million for intermunicipal collaboration, \$2.5 million for each of the Capital Region and Calgary Regional Partnership Boards with the remainder allocated to dispute resolution and internships.
Grants in Place of Taxes (GIPOT)	64.7	56.5	Budget 2016-17 reflects that municipalities will no longer have to collect and remit education property taxes on properties covered by GIPOT. As the budget has been reduced by a corresponding amount, there is a nil net impact. Note: The province maintained its elimination of GIPOT (also known as GILT) funding for Alberta Social Housing Corporation properties.
Family and Community Support Services (FCSS)	101.0	101.0	The province substantially increased funding in 2015-16 which was appreciated. However it has not followed the FCSS program funding policy for Budget 2016-17, which states that municipalities and Métis Settlements should receive the larger of: a) Funding calculated using a formula that takes into account the population of each participating municipality, adjusted for the median income level of the municipality in relation to all other communities in Alberta; or b) A two per cent increase.
Municipal Police Assistance Grant	54.6	55.8	The increase reflects an adjustment for population growth.
New Police Officer Program	30.0	30.0	AUMA has been advocating for increased funding for policing to keep pace with demand given Alberta's increasing crime rates.
Flood Recovery / Mitigation	26.3	3.8	Budget 2016-17 includes \$3.8 million for High River's Long Term Recovery. The 2015-16 funding included support for the 2013 flood recovery and mitigation.
Total	\$ 346.6	\$ 297.1	The reduction in operating grants reflects the province's actions to reduce operational expenses.

Note: ALERT funding received an increase of \$2.6 million in order to maintain existing staffing levels.

Education Property Tax

Budget 2016 maintained the 32 per cent rate that has been used in previous years between the total education system costs and the education property tax requisition. This translates to a 6.8 per cent or \$153 million increase, which continues the trend of requisition increases.

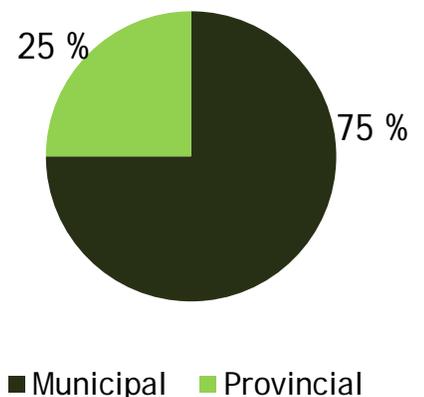
Education Property Tax Requisition* (\$ millions)			
Fiscal year	2015-16	2016-17	Per cent change
Residential	1,359	1,470	8.2
Non-Residential	902	944	4.7
Total	2,261	2,414	6.8
Calendar year	2015	2016	Per cent change
Residential	1,338	1,444	7.9
Non-Residential	885	927	4.7
Total	2,223	2,371	6.7

The 2016 residential/farmland rate will decrease from \$2.50 to \$2.48 per \$1,000 of equalized assessment and the non-residential rate will decrease from \$3.67 to \$3.64 per \$1,000 of equalized assessment.

Increased requisitions are problematic as they increase the property owner's total tax bill, leaving little room for municipalities to increase their own component of the tax within the property owner's tolerance for an increase.

Effective Budget 2016, municipalities will no longer have to transfer education property taxes on properties covered by the Grants in Place of Taxes Program. As the Program is being reduced by a corresponding amount to what was previously transferred, Municipal Affairs stated that there will be a nil net impact. AUMA will be following up to ensure that is the case.

Distribution of Property Tax*



*Sources: Alberta Treasury Board and Finance
Alberta Municipal Affairs

Impact of Climate Leadership Plan on municipalities

Alberta's municipalities recognize that action on climate change is needed. However, they are concerned about the potential impact of the carbon levy on municipal budgets once it comes into effect in 2017 and increases the price of major fuels.

Fuel Type	January 1, 2017 (\$20/tonne)	January 1, 2018 (\$30/tonne)
Diesel	5.35 ¢/L	8.03 ¢/L
Gasoline	4.49 ¢/L	6.73 ¢/L
Natural Gas	1.011 \$/GJ	1.517 \$/GJ
Propane	3.08 ¢/L	4.62 ¢/L

Source: Alberta Treasury Board and Finance

Budget 2016 provides some information on how the levy will be reinvested to support a transition to a lower carbon future. While it is anticipated that municipalities will receive funding for public transit and other green infrastructure as well as Energy Efficiency Alberta funding, the details are still yet to be worked out.

Climate Leadership Plan

(millions of dollars)

	2016-17 Estimate	2017-18 Target	2018-19 Target	2019-20 Projected	2020-21 Projected	5-year Totals
Spending:						
Climate Leadership Investment:						
Green Infrastructure (capital)	5	208	555	680	710	2,158
Energy Efficiency Alberta ¹	45	90	165	170	175	645
Other Investment ²	175	440	1,066	940	784	3,405
Climate Leadership Adjustment:						
Consumer Rebates	95	435	590	600	610	2,330
Other Adjustment ³	10	35	50	50	50	195
Total Spending	330	1,208	2,426	2,440	2,329	8,733

¹ Revenue recycling into grants and loans to small businesses, families, building owners, industries, community organizations and municipalities to support energy efficiency and micro-generation.

² Revenue recycling into bioenergy, renewable energy, innovation and technology, Climate Leadership Plan implementation.

³ Revenue recycling into coal community transition, adjustment for communities including Indigenous communities.

AUMA is urging the government to engage municipalities in determining how this funding will be allocated to neutralize the impact of the carbon levy on municipalities.

Budget 2016—Fiscal Plan

Provincial economic outlook

Consolidated Revenue:
\$41.4 B

Consolidated Expense
\$51.1 B

Consolidated Deficit
\$10.4 B

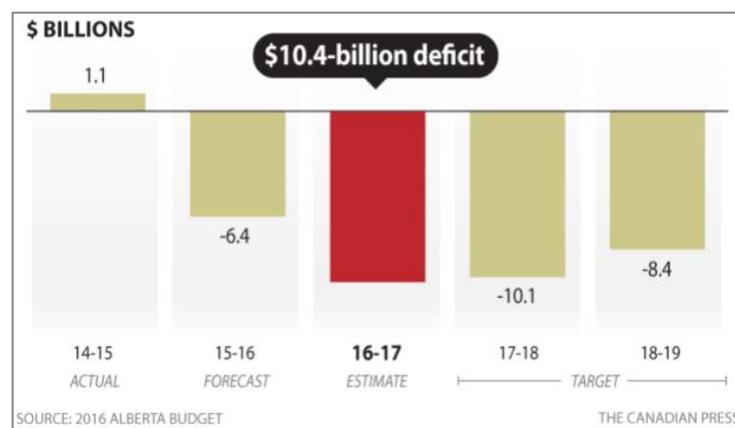
Budget 2016 – Key Fiscal Metrics

(billions of dollars)

	2014-15 Actual	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
Consolidated Revenue	49.5	42.9	41.4	45.0	49.6
Consolidated Expense	48.4	49.3	51.1	53.6	56.0
Risk Adjustment	-	-	(0.7)	(1.5)	(2.0)
Consolidated Surplus / (Deficit)	1.1	(6.4)	(10.4)	(10.1)	(8.4)
Other Key Metrics:					
Capital / Other Non-financial Assets	44.8	47.5	51.4	54.5	57.0
Heritage Fund Year-end Balances	15.0	15.2	15.4	15.7	16.0
Contingency Account Year-end Balances	6.5	3.8	-	-	-
Liabilities for Capital Projects / Fiscal Plan Borrowing	12.9	20.0	30.5	45.2	57.6
Debt to Nominal GDP Ratio	3.4%	6.0%	9.6%	13.1%	15.5%

It is expected that the province will have consecutive years of deficits. The deficit is expected to be \$10.1 billion in 2017-19, and \$8.4 billion in 2018-19. The province does not have a plan to return to a balanced budget before 2024.

These deficit projections are based on the following economic assumptions, with an expectation that WTI crude will increase by 50 per cent by 2018-19.



Energy and Economic Assumptions

	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
WTI Oil (US\$/bbl)	80.48	50.00	45.00	42.00	54.00	64.00
Light-Heavy Differential (US\$/bbl)	17.30	13.60	13.40	15.20	17.50	18.50
WCS@Hardisty (Cdn\$/bbl)	70.78	46.50	41.00	36.40	48.30	59.00
Natural Gas (Cdn\$/GJ)	3.51	2.60	2.30	2.40	2.80	3.00
Conventional Crude Oil Production (000s barrels/day)	586	560	529	524	506	489
Raw Bitumen Production (000s barrels/day)	2,330	2,473	2,403	2,668	2,890	3,151
Real GDP (% change)	4.8	(1.0)	(1.5)	(1.4)	1.9	2.8
Population (% change)	2.8	1.8	1.8	1.2	1.0	1.3

Source: Alberta Treasury Board and Finance

Budget 2016—Fiscal Plan (continued)

2015-2020 Provincial Capital Plan

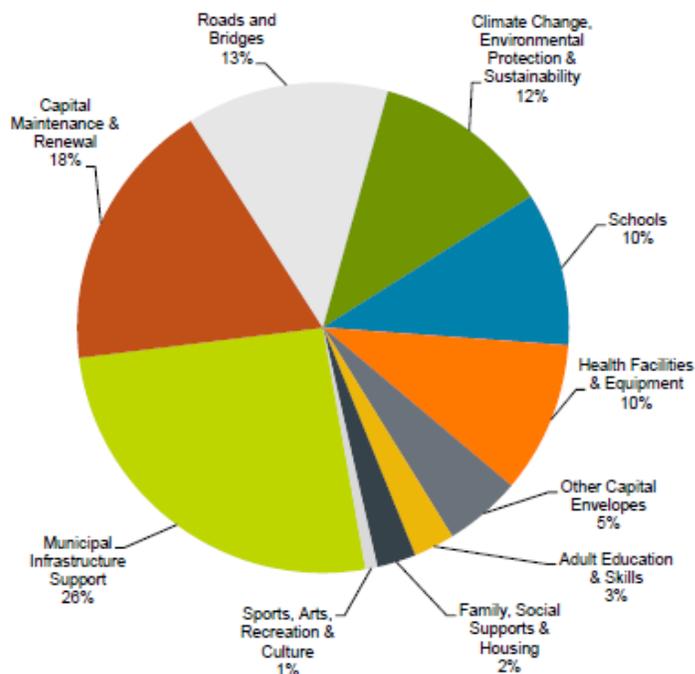
The \$34.8 billion five-year capital plan for Alberta is intended to stimulate the economy, keep people working, and address the province's infrastructure deficit.

Highlights include:

- \$9 billion for municipal infrastructure (see below for details);
- \$6.2 billion for maintenance and renewal of provincial infrastructure, including \$2.5 billion for roads and bridges, \$1.1 billion for schools, \$777 million for post-secondary institutions, \$760 million for health facilities, and \$298 million for seniors facilities and housing.
- \$4.6 billion for provincial roads and bridges, including the Edmonton and Calgary ring roads and Highways 2, 19 and 63.
- \$2.2 billion for green infrastructure under the Climate Leadership Plan. AUMA is urging the government to seek municipal input in determining how this funding is allocated.
- \$400 million for new Regional Water and Wastewater Projects through the Water for Life program and \$195 million for existing systems through the Municipal Water and Wastewater Program. The focus on new regional systems sends a clear signal that the provincial government wants municipalities to pursue regional solutions and implement cost recovery to support existing systems.
- \$892 million to build more affordable housing and renew existing housing.
- \$692 million for flood recovery and mitigation projects.
- \$112 million for provincial water management infrastructure such as dams.
- \$3.5 billion to build and expand health infrastructure.
- \$3.5 billion for new schools and modernization projects.
- \$1.2 billion for government facilities and equipment, including \$37 million for modernization of the registry system.
- \$940 million for post-secondary facilities, including Keyano College, Lethbridge College, MacEwan University, Mount Royal University, NAIT, NorQuest College, Red Deer College, the University of Calgary and the University of Lethbridge.

Much of the capital plan will be funded through direct borrowing (\$16.5 billion over three years). The green infrastructure portion will be funded through the carbon levy.

Budget 2016 Capital Plan – Allocation by Envelope
(% of total¹)



Although the provincial government has emphasized that nearly \$9 billion or 26 per cent of funding over the five years is for municipal and community infrastructure, only \$1.7 billion has actually been committed for year one through Budget 2016. If history is any indication, there is no guarantee that the capital funding pledged for the other four years will be realized.

¹ Excludes \$4.4 billion in self-financed capital investment by Alberta Health Services, post-secondary institutions and school boards.

Capital Plan Details,
(millions of dollars)

	2016-17 Estimate	2017-18 Target	2018-19 Target	2019-20 Projected	2020-21 Projected	5-Year Total
Municipal Infrastructure Support						
Community Facility Enhancement Program	38	38	38	38	38	190
Federal Gas Tax Fund	219	219	230	230	230	1,127
GreenTRIP	125	255	200	200	134	914
Municipal Sustainability Initiative:						
Municipal Sustainability Initiative – Capital	846	846	846	776	921	4,235
Basic Municipal Transportation Grant	360	370	380	391	354	1,853
New Building Canada – Small Communities Fund	74	31	17	10	-	132
New Building Canada Fund (Edmonton Valley Line LRT)	-	60	30	30	-	120
Strategic Transportation Infrastructure Program	-	35	65	-	-	100
Municipal Transit Initiatives	-	100	105	100	-	305
Total Municipal Infrastructure Support	1,662	1,954	1,910	1,774	1,676	8,976

Most of the \$9 billion in municipal and community capital funding is for municipalities. \$4.2 billion is for MSI, \$1.9 billion is for the basic municipal transportation grant, and \$1.4 billion is for transit and other transportation related projects, including \$914 million through GreenTRIP and \$305 million for municipal transit initiatives. Municipalities are not eligible for the Community Facility Enhancement Program shown in this chart.

Note that this chart excludes municipal funding that is shown under other categories of the capital plan (e.g., nearly \$600 million in water and wastewater funding is listed

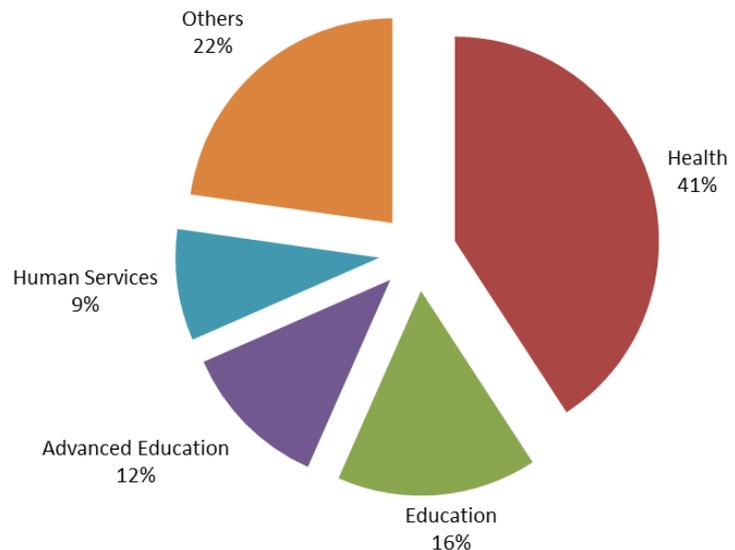
under climate change and environmental sustainability and there is also funding for disaster recovery and mitigation).

Operating expense

Similar to prior years, health and education and social services account for over 75 per cent of spending.

In terms of health spending, the province is reviewing the \$14.3 billion budget for Alberta Health Services to lower cost treatment methods, including shifting higher cost acute care to community based services where possible. Alberta Health remains the highest expenditure ministry at \$20.34 billion in 2016-17.

Operating Expense By Ministry



Education spending reflects the NDP government's commitment to fully fund enrolment growth, projected at 1.3 per cent (8,200 students), as well as fulfilling pledges to implement a school nutrition program (\$30 million over three years) and to reduce school fees. As well, the Budget maintains the commitment to stable funding for advanced education and implements the second year of a two-year tuition freeze.

Total spending for human services is budgeted at \$4.4 billion, reflecting the costs of the new Alberta Child Benefit program that will provide up to \$2,750 annually for low income Albertans. As well, funding towards Family and Community Support Services was maintained at \$101 million to support 80/20 partnerships between the province and municipalities.

Economic Development and Trade is leading the implementation of the government's new jobs, investment and diversification packing with \$250 million in funding over two years. This program will include \$90 million for a new Alberta Investor Tax Credit, \$25 million for apprenticeship and training, and \$10 million to support regional economic development initiatives among other programs.

The new climate levy along with compliance payments from large industrial emitters will provide \$9.6 billion over five years to fund programs under the Climate Leadership Plan. One of the key priority areas for investment under the Plan is support for municipalities for public transit and other green infrastructure. The government has budgeted \$5 million in 2016-17 for planning these projects.

Another key action under the Climate Leadership Plan is funding to help communities most affected by the phase out of coal-fired electricity generation, including training to help impacted workers transition into other areas of the economy.

Other key expenditures include \$99 million for Community and Voluntary Support Services through Culture and Tourism including \$7 million in new funding for cultural infrastructure, \$77 million for water management and \$46 million for land management programs through Environment and Parks. Municipal Affairs will be distributing \$846 million through the Municipal Sustainability Initiative, and \$359 million through the Basic Municipal Transportation Grant.

Additional expenditures include \$94 million for seniors housing and \$67 million for the rental assistance program through Seniors and Housing.

Public sector compensation for 2016-17 is estimated at \$25.2 billion, which reflects the freeze of management salaries in the public service, agencies such as Alberta Health Services, and political staff.

Review of agencies, boards and commissions

One of the major cost saving measures the government has taken in Budget 2016 is the dissolution or consolidation of 26 agencies as part of the review of Alberta's 126 agencies, boards and commissions.

This action is projected to save \$33 million over three years. An example of a key change is the replacement of the Utilities Consumer Advocate Advisory Board with the Energy Consumers Panel in which AUMA has been invited to participate. While the Land Compensation Board, Surface Rights Board, Municipal Government Board, and New Home Buyer Protection Board will remain separate boards, they will share administrative functions such as finance and recruitment.

Conclusion

This budget contains some positive movement towards funding of key areas, including water and waste water infrastructure and social housing. However, it is a reflection of why the municipal funding model needs to change. With this kind of volatility and lack of consultation by the province, it is unreasonable to expect that municipalities can carry out their required three-year operating and five-year capital planning when the province can't keep committed funding levels stable for more than a year.

AUMA will continue pressing for more stable and predictable sources of funding through the forthcoming release of changes to the Municipal Government Act this year. This includes advocating for core grants to be statutory and indexed for growth and for municipalities to have greater revenue powers.