UDI-ER Brief – University of Calgary School of Public Policy – *Alberta's Long-Term Fiscal Future* (By: Trevor Tombe[1], University of Calgary)

Overview:

- **This report evaluates the long-term revenue and spending outlook for the Province of Alberta[2]**

- *Short-Term Challenges*
- Alberta's budget deficits are currently at their largest since the 1980s
- Alberta's debt is projected to reach $96 billion by 2023-2024 - equivalent to **12 per cent of GDP**
    - The largest level Alberta has seen in 80 years
    - On a *per capita* basis, this is approaching levels of Ontario and Quebec

- *Long-Term Challenges*
- Essentially, even if plans to balance the budget in the next decade are achieved, an aging population, rising debt levels and volatile resource revenues will all lead to fiscal pressures increasing.
- Without substantive government policy changes, this paper forecasts a deficit of almost $40 billion by 2040
    - This could raise the ratio of net debt to GDP to almost 50 per cent by 2040
        - This means interest payments could balloon to more than $22 billion (or 17 per cent of the government's total revenue)

Where We Are and Where We're Going:

- Currently, the short and medium term budget pressures largely boil down to inconsistencies in resource revenue and increases in health-care spending

- *Resource Revenue*
    - Understandably, low oil prices have severely reduced royalty revenues
        - E.g. In 2014-2015, Alberta received $9 billion from resource revenue (this dropped to $2.8 billion a year later)

- *Health-care Spending*
    - An aging population will significantly drive up spending pressures on the Province, as the share of the population accounted for by persons in older groups with high health-care costs will increase as the baby boomers age.

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[1] Opinions within this brief are those of the author. Information from the original paper have been parsed out and summarized here for the benefit of informing UDI-ER's membership.
[2] For a complete explanation behind the modelling assumptions of this paper, please refer to the complete document - here.

- Even ignoring the effect of overall population growth, general inflation and health-care-specific inflation, Alberta is on track to increase health spending over the next three decades by **30 per cent**

Alberta's Medium-Term Fiscal Projection:

- Two important results stand out in Alberta's medium term fiscal projections:
    - First, total expenditures exceed total revenue throughout the projection period and the resulting budget deficits are large
    - Second, the consequent rise in debt leads to even higher debt service costs
        - Debt service costs (*as a percentage of total government revenue*):
            - Today – 4%
            - 2030 – 9.5%
            - 2040 – 17.6%
                - Meaning by 2040, **$1 in $5** of government revenue will be used to service debt

Alberta's Long-Run Debt Sustainability:

- Alberta's debt to GDP is unsustainable long-term
    - As things currently stand, the author finds an increase in revenue or a decrease in spending necessary to put Alberta on a sustainable fiscal path is 2.7 per cent of GDP
        - Said differently, **this is equivalent of an immediate 10 per cent sales tax or cutting $1 in every $6 of government expenditures**

- Furthermore, the fiscal challenges will increase as time progresses:
    - E.g. Eliminating the net debt by 2040 (as a percentage of GDP)
        - If implemented in:
            - Budget 2019 – 2.1%
            - Budget 2025 – 3%
            - Budget 2030 – 4.4%

- Therefore, what is the long-term option?[3]
    - A moderate strategy of restrained spending and modest new revenue is the most practical approach
        - On the revenue side, this includes implementing a sales tax and using carbon tax revenue to shrink the deficit
        - On the spending side, finding efficiencies and exploring innovations in health-care delivery are possible options
            - Whichever options are chosen, they should be coupled with a detailed and goal-driven long-term fiscal outlook by the Province.

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[3] Please refer to the Table on p. 24 for a full list of various fiscal options.