



# *2017 Provincial Budget Analysis by AUMA*

*March 16, 2017*

*(revised April 10, 2017)*



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IN MUNICIPALITIES

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## Budget 2017 – Working to Make Life Better

The provincial budget was released on March 16<sup>th</sup>, 2017. It has the following three components within the theme of making the lives of Albertans better:

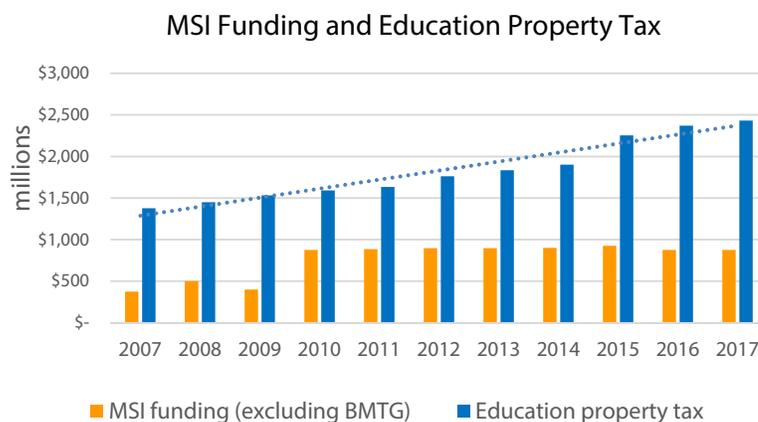
- **Practical changes that make life more affordable for Albertans** such as reducing fees in the K-Grade 12 education system, the tuition freeze in post-secondary institutions, a rate ceiling on electricity prices, and carbon rebates for lower and middle-income Albertans.
- **Creating good jobs and building a diversified economy** by investing in modern and green infrastructure, as well as focusing on ways to help encourage job creation and economic diversification.
- **Protecting and improving the services and supports that make a difference in the lives of Albertans** by providing stable funding for health, education, income support programs and social services.

The province continues to increase the debt to \$45 billion in the coming year. The debt is forecasted to hit \$71.1 billion by 2019-20 with no plan to return to balanced budgets by 2023. This year’s deficit remains over \$10 billion and about \$500 million less than last year’s budget deficit.

## Advocacy for Municipal Infrastructure

AUMA has been persistent in its advocacy to the Government of Alberta on the importance of municipal infrastructure, with repeated calls for continued provincial investment as we work towards a new, long-term sustainable funding model for municipalities. We are pleased that the province maintained its investment in MSI Capital for Budget 2017, allocating \$846 million through this envelope for municipal infrastructure. The MSI funding, along with \$335 million through the Basic Municipal Transportation Grant (BMTG), (which is \$35 million less than committed as a result of lower gas volume sales), a reinstated \$35 million Strategic Transportation Infrastructure Program (STIP), and an honoured commitment to water and wastewater funding allows municipalities to move ahead with projects for the next year.

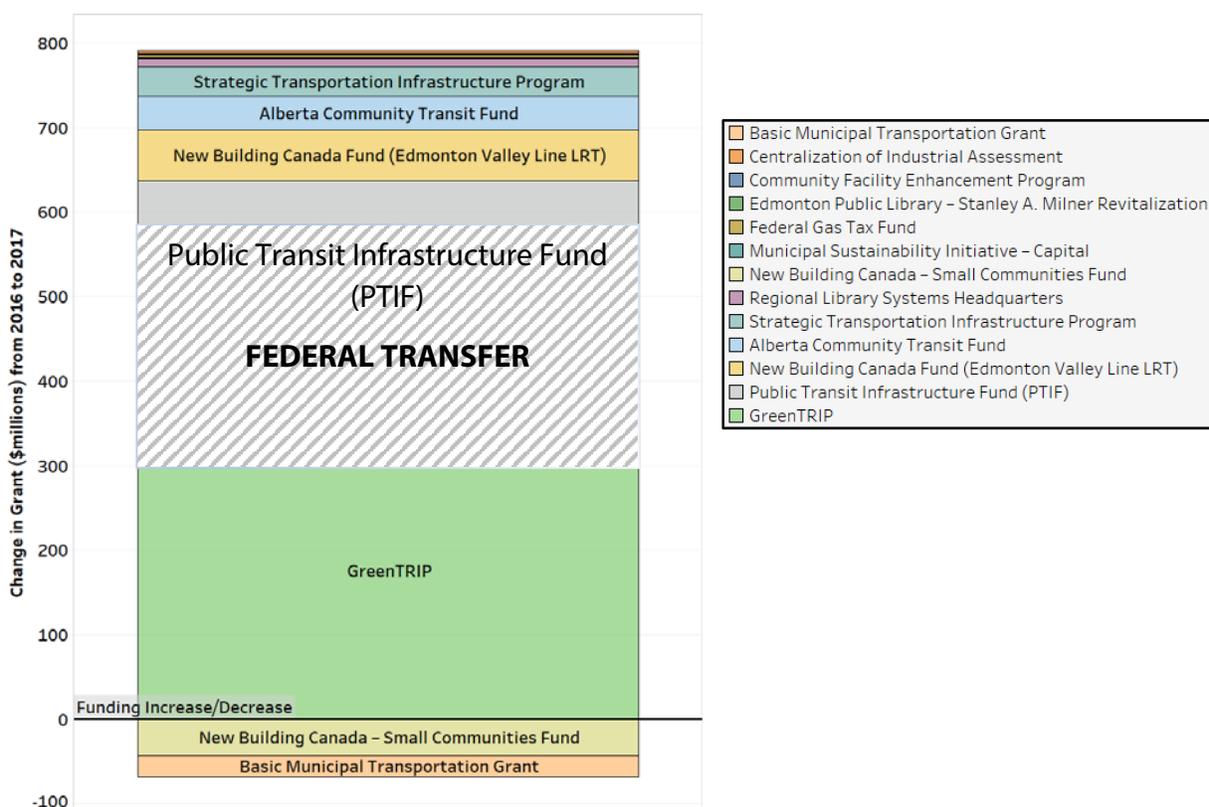
While pleased with the one-year assurance offered by Budget 2017, AUMA is concerned that future funding for municipalities remains uncertain, particularly in light of rising education property taxes. AUMA has shared some suggested approaches for a new funding model with the Minister of Municipal Affairs, and we are ready to partner now on a new way forward.



## Provincial and Federal Investments

Municipalities appreciate the investment in all types of public infrastructure, as there is a great need for not only municipal infrastructure, but also new schools and health care facilities in our communities. However, only allocating 26 per cent of the total public infrastructure budget to municipalities, (who own 60 per cent of public infrastructure) will not provide a long term solution to the municipal infrastructure deficit.

Although the province indicates that Budget 2017 provides a 43 per cent increase in municipal infrastructure, a portion of this funding relates to federal transfers. For example, if wholly federally funded programs such as the Public Transit Infrastructure Fund (PTIF) and the Gas Tax Fund (GTF) are removed from the equation, the increase in funding to municipalities from Budget 2016 is actually closer to 30%. This is reduced even further when the previously approved projects under the New Building Canada are removed. The PTIF and GTF do not encompass the totality of federal infrastructure transfers, and as such the actual change from Budget 2016 to Budget 2017 for capital grants, and illustrates that one of the largest contributors to the increase is a federal transfer.



## Summary of Municipal Impacts

The following chart provides a clearer picture of how funding has changed.

### Core Capital Grants to Municipalities (\$ millions)

Capital Grant	Budget 2016-17	Budget 2017-18	Comment
Municipal Sustainability Initiative (MSI) Capital	846.0	846.0	The province met its promise to maintain funding levels for MSI Capital at \$846 million for 2017. While it is estimated to remain at \$846 million per year for the next four years, this is subject to an annual budget decision and the program itself is to be replaced.
Basic Municipal Transportation Grant (BMTG)	340.7	335.0	2017-18 funding is \$5.7 million less than in Budget 2016 and \$35 million less than what was previously committed for 2017-18. Funding is forecasted to increase by \$9 million per year for the next three years.
Gas Tax Fund (GTF) (Federal)	219.1	222.0	GTF is distributed based on the federal funding formula. It is estimated to be \$229 million per year for the next three years.
Clean Water Wastewater Fund (CWWF) Phase 1 (Federal)	-	165.0	This is new federal funding to provide communities with more reliable water and wastewater systems so that both drinking water and effluent meet legislated standards.
New Building Canada Fund – Small Communities Fund	74.0	31.0	The 2017-18 budget simply reflects the cash flows associated with previously approved projects. No new funding has been allocated for the program.
New Building Canada Fund – Edmonton Valley Line LRT)	-	60.0	Budget 2016 identifies \$60 million in provincial contributions for this project.
Public Transit Infrastructure Fund (PTIF) – Phase 1 (Federal)	-	285.0	New federal funding to support the rehabilitation of transit systems, new capital projects, and planning and studies for future transit expansion to foster long-term transit plans.
GreenTRIP	125.0	477.4	GreenTRIP continues to provide significant support to municipal transit projects. The 2017-18 amount includes \$7 million in revenue from the Carbon Levy.
Water for Life	80.0	55.0	The province had previously confirmed that it would reduce funding to \$55 million for 2017. Funding is estimated to increase to \$105 million in 2018 and \$80 million in 2019.

Capital Grant	Budget 2016-17	Budget 2017-18	Comment
Municipal Water and Wastewater Program	50.0	50.0	The province met its commitment to maintain funding at \$50 million for 2017; however, it is estimated to decrease to \$45 million in 2018 and \$25 million in 2019.
Strategic Transportation Infrastructure Program (STIP)	-	35.0	The province met its commitment to restart STIP funding in 2017. Funding is estimated to decrease to \$30 million in 2018 before returning to \$35 million in the following year.
Alberta Community Transit Fund	-	40.0	This is a new funding program that was formerly known as the Municipal Transit Initiative. 2017 funding is \$60 million less than the pledge made in Budget 2016 but future funding is estimated to increase to \$85 million in 2018 and \$155 million in the following year. The criteria will be announced at a future date.
Flood Recovery / Mitigation	89.9	25.1	This funding is linked to the 2013 flood recovery. The 2017-18 amount represents \$5 million for school recovery and \$20.1 million for Community Stabilization.
Access to Regional Drinking Water Systems (UNDRIP)	-	25	A new funding program in support of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). The criteria will be announced at a future date.
<b>Total</b>	<b>\$1,824.7</b>	<b>\$2,651.5</b>	

### Core Operating Grants to Municipalities (\$ millions)

Operating Grant	Budget 2016-17	Budget 2017-18	Comment
Municipal Sustainability Initiative (MSI) Operating	30.0	30.0	The province maintained MSI Operating at \$30 million, which is particularly important for smaller municipalities.
Alberta Community Partnership	20.0	18.5	2017-18 funding was decreased to equal the province's forecasted expenditure for 2016-17.
Family and Community Support Services (FCSS)	100.7	100.7	The province maintained the funding at the 2016 levels, which reflected a significant increase from previous years' budgets.
Police Assistance Grant	55.8	55.8	Funding has been maintained at the prior year's level.

<b>Operating Grant</b>	<b>Budget 2016-17</b>	<b>Budget 2017-18</b>	<b>Comment</b>
New Police Officer Program	30.0	30.0	The province maintained its commitment to provide \$30 million in 2017-18.
Emergency Preparedness Grant	0.2	0.2	Municipalities will continue to have access to funding for fire services and emergency management training.
Flood Recovery / Mitigation	3.8	-	The zero-funding in 2017-18 represents the completion of recovery funding for the 2013 flooding in High River.
Grants in Place of Taxes (GIPOT)	56.5	59.3	The province maintained its 2015 decision to not provide GIPOT funding for properties owned by the Alberta Social Housing Corporation.
<b>Total</b>	<b>\$ 297.0</b>	<b>\$ 294.5</b>	

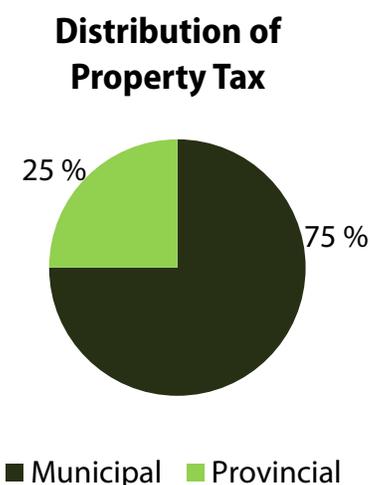
## Education Property Tax

Since 2013, the amount of education property tax has been fixed at 32 per cent of provincial education operating costs. However, in Budget 2017, the province used a ratio of about 31 per cent because of the large increase in education operating costs. Although the property tax rate was frozen (no change from prior year rates), there will be an additional \$32 million in property taxes due to a growth in assessment base.

The residential/ farmland rate will remain at \$2.48 per \$1,000 of equalized assessment and the non-residential rate will remain at \$3.64.

<b>Education Property Tax Requisition* (\$ millions)</b>			
<b>Fiscal year</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Per cent change</b>
Residential	1,470	1,492	1.5
Non-Residential	944	954	1.1
Total	2,414	2,446	1.3
<b>Calendar year</b>	<b>2016</b>	<b>2017</b>	<b>Per cent change</b>
Residential	1,444	1,493	3.4
Non-Residential	927	939	1.3
Total	2,371	2,432	2.6

\*Sources: Alberta Treasury Board and Finance and Municipal Affairs



Since 2016, municipalities will no longer have to transfer education property taxes on properties covered by the Grants in Place of Taxes (GIPOT). Through MGA amendments in Bill 21, these properties have been removed from the equalized assessment and therefore no longer pay education property tax. This change removes the need for municipalities to receive a grant from the province for GIPOT properties and remit it back to the province. This change resulted in about 0.58 per cent of the \$2.4 billion education property tax requisition (about \$14 million) being distributed amongst property tax payers.

## Implementation of the Climate Leadership Plan

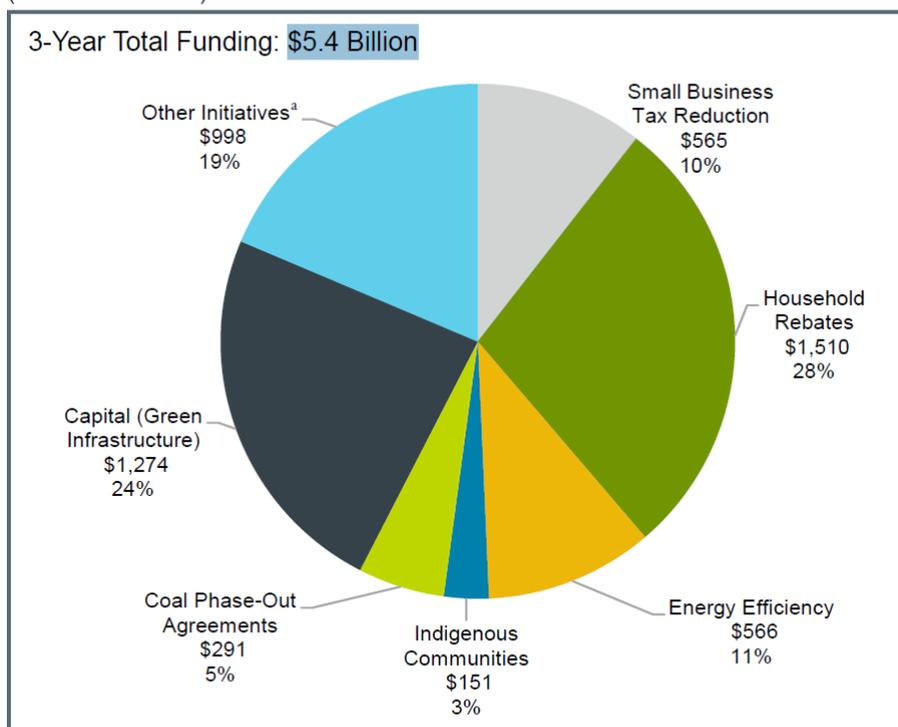
Over the next three years the province estimates that it will collect \$3.8 billion through the carbon levy on fuels, in addition to the \$1.6 billion that will accrue from the carbon pricing applied to large emitters such as electricity producers.

Budget 2017 includes a very high level overview of how this revenue will be spent, as outlined in the following chart.

Unfortunately, the budget is silent on AUMA's request for municipalities to receive a rebate for the cost of the levy they incur in order to neutralize the levy's approximately \$20 million annual impact on municipal operating budgets.

### Climate Leadership Funding

(millions of dollars)



<sup>a</sup> Revenue recycling into bioenergy, renewable energy, innovation and technology, coal community transition and other Climate Leadership Plan implementation initiatives.

The province indicates that Budget 2017 allocates funding to a number of program areas that will directly support municipalities in the transition to a low carbon economy. However, details are still to come. For example, of the estimated \$214 million that will be invested in "green infrastructure" in 2017, \$7 million has been allocated to the GreenTRIP program. AUMA will continue to call on the province to engage municipalities in determining how the remainder will be allocated.

AUMA is also working with the province to determine how the Municipal Climate Change Action Centre can facilitate the equitable allocation of a portion of the \$187 million earmarked for energy efficiency and small scale renewables in 2017 to municipalities.

In addition, AUMA has called on the province to support municipalities impacted by the phasing out of coal-fired electricity generation, and looks forward to the release of a report by the Advisory Panel on Coal Communities in spring 2017. We hope the panel's report will provide clear recommendations on how some of the almost \$200 million budgeted to "other initiatives" in 2017 can be used to support the long-term viability of these communities.

## Budget 2017 – Fiscal Plan

### Provincial Economic Outlook

Consolidated Revenue:  
\$45 B

Consolidated Expense  
\$54.9 B

Consolidated Deficit  
\$10.3 B

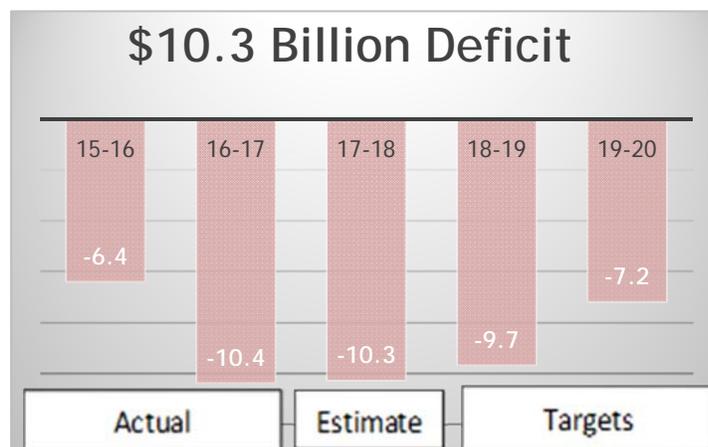
#### Budget 2017 – Key Fiscal Metrics

(billions of dollars)

	2015-16 Actual	2016-17 Budget	2016-17 Forecast	2017-18 Estimate	2018-19 Target	2019-20 Target
Total Revenue	42.5	41.4	42.9	45.0	47.6	51.8
Total Expense	48.9	51.1	53.7	54.9	56.7	58.0
Risk Adjustment	-	(0.7)	-	(0.5)	(0.7)	(1.0)
<b>Surplus / (Deficit)</b>	<b>(6.4)</b>	<b>(10.4)</b>	<b>(10.8)</b>	<b>(10.3)</b>	<b>(9.7)</b>	<b>(7.2)</b>
Other Key Metrics:						
Capital / Other Non-financial Assets	47.3	51.2	50.1	53.4	55.9	58.5
Heritage Fund Year-end Balances	15.2	15.4	15.4	15.7	16.0	16.3
Contingency Account Year-end Balances	3.6	-	2.3	-	-	-
Capital Plan liabilities/ Fiscal Plan borrowing	20.0	30.5	32.6	45.0	58.7	71.1
Debt to Nominal GDP Ratio	6.1%	9.6%	10.6%	13.8%	17.1%	19.5%

Source: Alberta Treasury Board and Finance

The consolidated deficit will drop this year to \$10.3 billion with a forecasted drop to \$9.7 billion in 2018-19 and \$7.2 billion in 2019-20. This forecast is based on the WTI oil price averaging US \$55/bbl in 2017-18, \$59 in 2018-19 and \$68 in 2019-20.



Source: Alberta Treasury Board and Finance

#### Energy and Economic Assumptions

	2015-16 Actual	2016-17 Budget	2016-17 Forecast	2017-18 Estimate	2018-19 Target	2019-20 Target
WTI Oil (US\$/bbl)	45.00	42.00	48.00	55.00	59.00	68.00
Light-Heavy Differential (US\$/bbl)	13.40	15.20	14.20	16.00	18.00	18.60
WCS@Hardisty (Cdn\$/bbl)	40.86	36.40	44.50	51.30	53.00	63.40
Natural Gas (Cdn\$/GJ)	2.21	2.40	2.15	2.90	2.90	3.00
Conventional Crude Oil Production (000s barrels/day)	508	524	436	416	403	394
Raw Bitumen Production (000s barrels/day)	2,489	2,668	2,488	2,906	3,195	3,296
Exchange Rate (US\$/Cdn\$)	76.3	73.5	76.0	76.0	77.5	78.0
Real GDP (% change)	(3.6)	(1.4)	(2.8)	2.6	2.2	2.4
Population (% change)	1.7	1.2	1.8	1.3	1.4	1.4

Source: Alberta Treasury Board and Finance

## Budget 2017 – Fiscal Plan (continued)

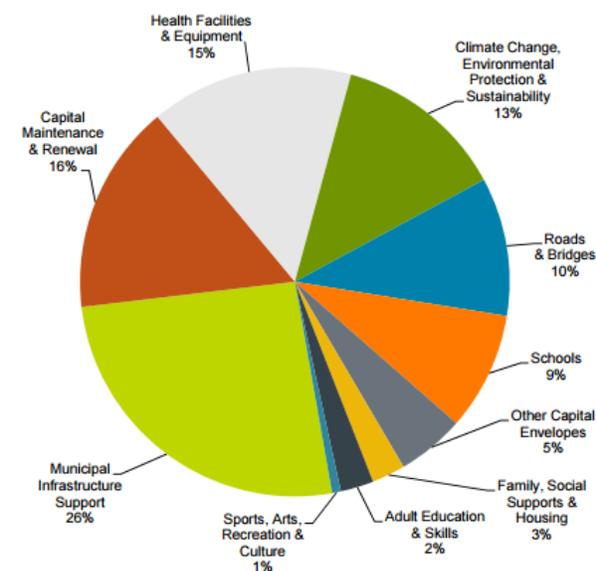
### 2017-2020 Provincial Capital Plan

The Budget 2017 Capital Plan supports \$29.5 billion in projects over four years, continuing the infrastructure investment that began with Budget 2016. This investment is intended to stimulate the economy, keep people working, and address the province’s infrastructure deficit.

Highlights include:

- \$7.6 billion for municipal infrastructure as outlined in the table on pages 3-4.
- \$320 million for new regional water and wastewater projects through the Water for Life program, and \$145 million for existing systems through the Municipal Water and Wastewater Program.
- \$100 million in new funding to support Albertans living on reserve that do not have access to clean drinking water, by integrating Indigenous communities into regional drinking water systems.
- \$4.7 billion for the renewal of provincial infrastructure, including \$2.1 billion for roads and bridges; \$473 million for schools; \$676 million for post-secondary facilities; and \$600 million for healthcare facilities.
- \$239 million for seniors’ facilities and housing, including the Deer Lane project in Banff, the regeneration of Linsford Gardens in Leduc, a new development in Lethbridge, and the renewal of lodges in Sherwood Park and Barrhead.
- \$4.5 billion over four years for healthcare infrastructure, including \$400 million for a new hospital in Edmonton and \$131 million to build a new continuing care facility in Calgary.
- \$500 million for new school projects over the next four years, with an additional \$488 million for future school projects starting in 2018-19.
- \$97 million for a new Red Deer Justice Centre.

**Budget 2017 Capital Plan – Allocation by Envelope**  
(% of Total Capital Plan)



Source: Alberta Treasury Board and Finance

## Capital Plan Details, continued

(millions of dollars)

	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Projected	4-Year Total
<b>Municipal Infrastructure Support</b>					
Centralization of Industrial Assessment	3	-	-	-	3
Community Facility Enhancement Program	38	38	38	38	152
Edmonton Public Library – Stanley A. Milner Revitalization	2	-	-	-	2
Federal Gas Tax Fund	222	229	230	229	910
Grande Prairie – Highway 43 De-designation	-	5	5	5	15
GreenTRIP	477	220	141	10	848
Municipal Sustainability Initiative:					
Municipal Sustainability Initiative – Capital	846	846	846	846	3,384
Basic Municipal Transportation Grant	335	344	353	363	1,395
Alberta Community Transit Fund	40	85	155	25	305
New Building Canada – Small Communities Fund	31	17	10	-	58
New Building Canada Fund (Edmonton Valley Line LRT)	60	30	30	-	120
Public Transit Infrastructure Fund (PTIF)	285	35	-	-	320
Regional Library Systems Headquarters	11	-	-	-	11
Strategic Transportation Infrastructure Program	35	30	35	-	100
<b>Total Municipal Infrastructure Support</b>	<b>2,385</b>	<b>1,879</b>	<b>1,843</b>	<b>1,516</b>	<b>7,623</b>

Source: Alberta Treasury Board and Finance

Most of the \$7.6 billion in municipal and community capital funding over four years is for municipalities. This includes \$3.4 billion for MSI; \$1.4 billion for the Basic Municipal Transportation Grant; \$1.6 billion for transit and other transportation related projects, including \$848 million through GreenTRIP; \$320 million through the Public Transit Infrastructure Fund (federal dollars); \$100 million through the Strategic Transportation Infrastructure Program; and \$305 million through the new Alberta Community Transit Fund (criteria to be determined). GreenTRIP increased from \$125 million in 2016-17 to \$477 million in 2017-18. Seven million dollars of this increase was funded through carbon levy revenue.

Note that the table above excludes municipal funding that is shown under other categories of the capital plan (e.g., nearly \$465 million in water and wastewater funding is listed under climate change and environmental sustainability and there is also funding for disaster recovery and mitigation). Additionally, municipalities are not eligible for the Community Facility Enhancement Program shown in this table.

## Budget 2017 - Fiscal Plan (continued)

### Operating Expense

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

Health's expense is budgeted at \$21.4 billion in 2017-18, with operating expense budget increasing by 3.2%. A key focus is shifting from hospitals and facilities to more community-based care.

Education's expense is budgeted at \$8.2 billion in 2017-18. School fees will be reduced by \$54 million per year.

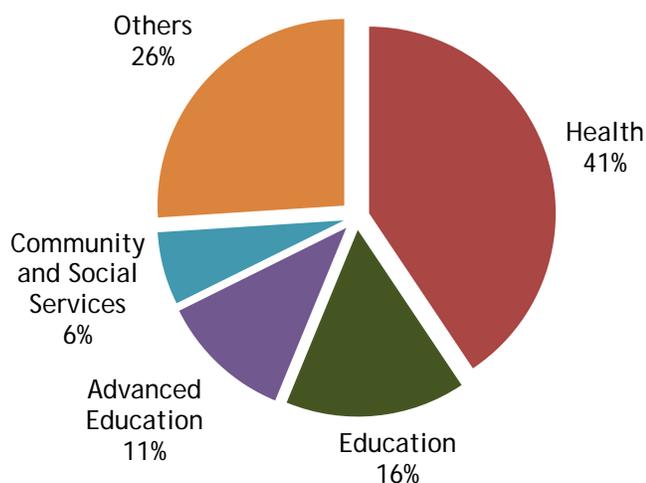
Advanced Education's expense is budgeted at \$6 billion in 2017-18. Tuition is frozen for the third year.

Culture and Tourism expense is budgeted at \$351 million in 2017-18 and will provide \$115 million for Community and Voluntary Support Services, including \$38 million under the Community Facility Enhancement Program and \$24 million in funding for Culture and Tourism infrastructure. The budget also provides \$77 million in support for creative industries, including the Alberta Media Fund, and \$61 million for tourism marketing and development.

Environment and Parks expense is budgeted at \$564 million in 2017-18. This provides \$132 million for ongoing water management and stewardship, and includes \$85 million for parks including funding to enhance the protection of the Castle Special Management area. There is \$76 million earmarked for provincial environmental monitoring, evaluation and reporting, and \$44 million for fish and wildlife, including support for provincial woodland caribou management and recovery as well as management of whirling disease.

Municipal Affairs expense is budgeted at \$1.7 billion in 2017-18. This budget provides \$1.2 billion to municipalities through the MSI, including \$335 million in Basic Municipal Transportation Grants. It also provides \$59 million for Grants in Place of Taxes and \$50 million for public library services.

### Operating Expense By Ministry



Transportation expense is budgeted at \$2.3 billion in 2017-18. This includes \$429 million for provincial highway maintenance, and \$1.2 billion in capital grants to municipalities for programs including: GreenTRIP, Strategic Transportation Infrastructure Program, Alberta Community Transit Fund (formerly Municipal Transit Initiatives), Municipal Water Wastewater Program, Water for Life, UNDRIP – Access to Regional Drinking Water Systems, and the federal Public Transit Infrastructure Fund and Clean Water Wastewater Fund.

Public sector compensation for 2017-18 is budgeted at \$26.1 billion, which amounts to 55.8 per cent of total operating costs. There are increases in front-line staffing levels for schools boards and Alberta Health Services.

## Conclusion

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While the infrastructure investments are welcome news given the declining nature of municipally-owned public infrastructure, the province's present approach does not provide municipalities with the stability they require. Infrastructure funding, along with front-line policing resources, require long-term initiatives that provide predictable funding to communities across our province. It is unreasonable that the province expect municipalities to complete three-year operating plans and five-year capital plans when the amount of provincial grants change, without notice, each year.

Municipalities appreciate that the province is investing in much needed social programs, such as maintaining the FCSS investment, addressing homelessness and responding to the recommendations to improve our mental health and addictions systems. These investments are important to the quality of life of citizens and make a difference in the overall health of our communities.

The success of the province is unquestionably linked to the success of Alberta's urban municipalities. AUMA will continue to work alongside government partners, pressing for more stable and predictable funding sources. This includes advocating for core grants to be statutory and indexed for growth and for municipalities to have greater revenue powers.