Fumbling the Alberta Advantage

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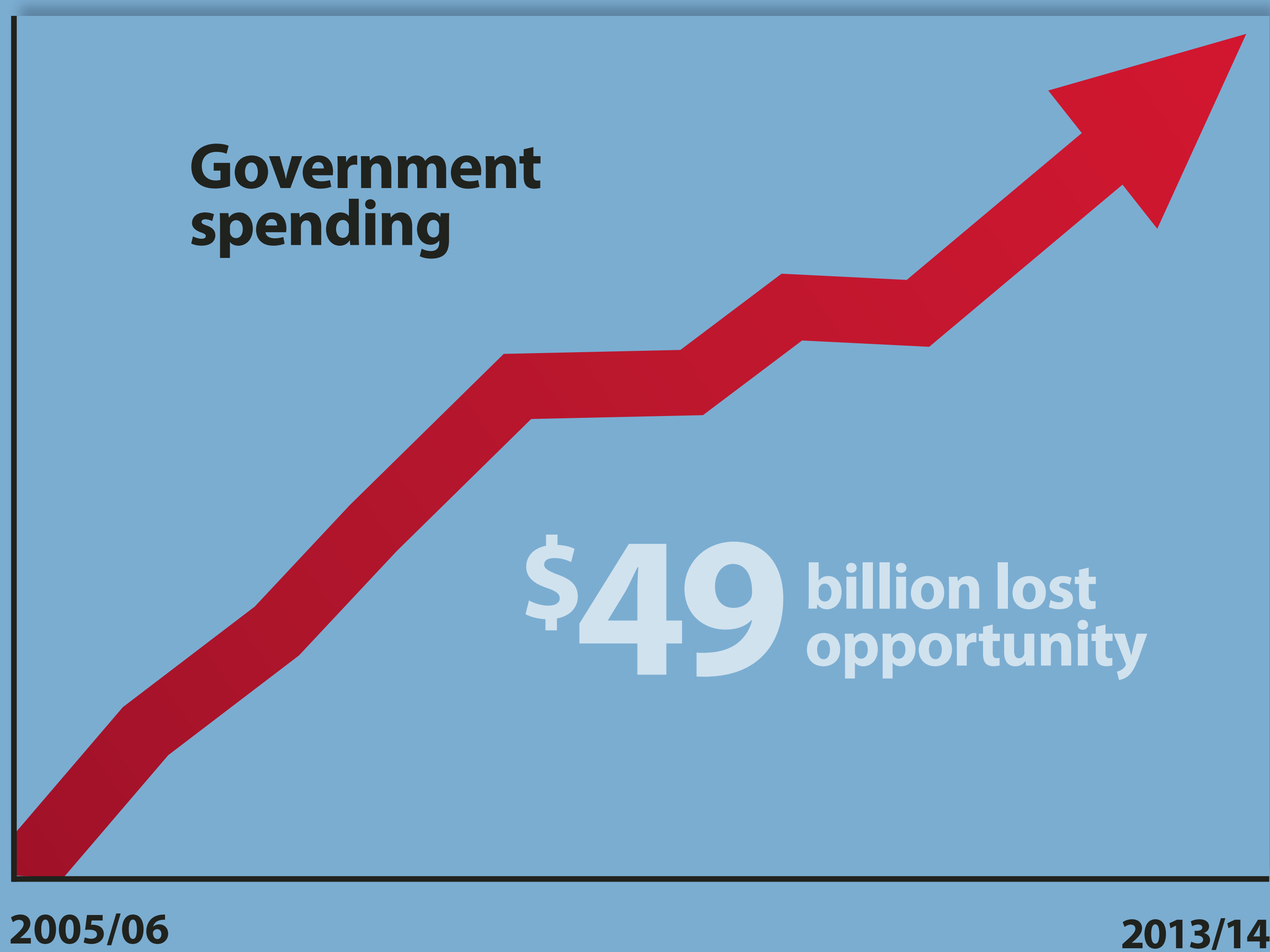
HOW ALBERTA SQUANDERED A DECADE OF HIGH ENERGY PRICES



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Executive Summary

This report offers two analyses. The first is a look at program spending in Alberta after 1993/94 up to 2013/14. The second is what such program spending meant, in retrospect, for a lost opportunity: the ability of the province to make additional deposits into the Alberta Heritage Savings Trust Fund.

Spending

It is well-known that Alberta's provincial budget is highly dependent on resource revenues. Over the last decade, as a proportion of total revenues, resource revenues have accounted for as much as 40% (2005/06) and as low as 19% (2009/10). In the most recent year (2013/14), resource revenues accounted for 21% of all revenues.

What is often less remarked on and analyzed is how the other side of the provincial budget ledger, program expenses, have grown dramatically and much quicker than the combined effect of population growth and inflation would require.

In 1993/94, per-person program spending (in real dollars) was $8,978. The Ralph Klein government cut real program spending back to $6,828 per person by 1996/97. By 2004/05, per-person real program spending had risen again to $8,965; in essence, back to where per-person program spending was before the mid-1990s expenditure reductions.

By the mid-2000s, even though the province was again spending at a level that contributed to deficits in the early 1990s, after 2004/05 the province allowed program spending to escalate even further and beyond inflation and population growth. The result was that by 2013/14, the province spent $10,967 per person on government programs. That was $2,002 higher per person than in 2004/05.

Had the province increased program spending after 2004/05 but within population growth plus inflation, by 2013/14 the province would have spent $35.9 billion on programs. Instead, the province spent $43.9 billion, an $8 billion difference in that year alone.

That $8 billion difference is significant. In recent interviews, Alberta Premier Jim Prentice has warned that the drop in oil prices has drained $7 billion from expected provincial government revenues. Thus, past decisions to ramp up program spending mean that additional provincial spending (beyond inflation and population growth) is at least as responsible for current budget gap as the decline in revenues.

The province spent $344.6 billion (in real terms) on programs between 2005/06 and 2013/14, inclusive. Had the province increased program spending after 2004/05 to allow for inflation plus population growth, but only within those parameters, the province would have spent $295.4 billion, a $49.2 billion difference.

The Lost Opportunity

While discussion over the Alberta Heritage Savings Trust Fund is temporarily muted due to concerns over the provincial budget deficit, some have advocated higher taxes on the basis that the Alberta government should make regular and significant deposits into the Heritage Fund. As this analysis will show, as per other lost opportunities due to runaway government program spending in Alberta, the Alberta Heritage Savings Trust Fund could have seen significant deposits over the past decade—had spending been more carefully controlled.

In specific, between 2005/06 and 2013/14, and adjusted for inflation, the province of Alberta garnered $101.3 billion in resource revenues. Had Alberta imitated the state of Alaska (which also possesses a resource fund similar to Alberta's) and followed the Alaska rule that requires 25% of all resource revenues to be deposited into the Alaska Permanent Fund, from 2005/06 to 2013/14 inclusive, instead of just $4.5 billion in actual deposits, the deposits would have amounted to $25.3 billion.

Given what is now known about the spending patterns of the last decade—that Alberta spent an extra $49.2 billion on programs above inflation and population growth—a deposit of 25% of resource revenues, or $25.3 billion, into the Heritage Fund would not have been unreasonable had program spending been more carefully controlled. Instead, the province deposited just $4.5 billion, or 4.5% of all resource revenues between 2005/06 and 2013/14.

Two recommendations

First, past provincial choices meant program expenses were $8 billion higher in 2013/14 than what they would have been had if the province allowed spending to rise after 2004/05 but within the confines of population growth and inflation.

Second, such spending meant the province sacrificed the potential to follow the Alaska model and its 25% rule, and deposit $25.3 billion, instead of $4.5 billion, into Alberta's own resource fund, the Alberta Heritage Savings and Trust Fund.

The province's past fiscal choices have now severely constricted present choices on everything from balanced budgets to tax relief to additional capital spending. If the province wishes to have a better menu of choices in the future, it must, obviously, control expenditures more carefully.

Introduction—Alberta's deep deficit years

In recent media interviews, Alberta Premier Jim Prentice has warned Albertans that the current fiscal year's projected surplus has now turned into at least a $500-million deficit and that the drop in oil prices have drained $7 billion from expected provincial government revenues (Braid, 2015; Kleiss, 2015). The final deficit figure for 2014/15[1] will not be known with precision until the province of Alberta reports that figure in its annual report (released in June of each year). The forecast 2015/16 provincial deficit will be known much sooner, when the province of Alberta releases *Budget 2015* at some date in the next few weeks.

This report will detail first, how the change in natural resource prices affects the Alberta budget; second, trends in Alberta's program expenditures from 1993/94 to 2013/14; third, examples of where the province could have been more prudent in spending are given; fourth, an example of a missed opportunity for additional and significant deposits into the Alberta Heritage Savings Trust Fund.

Alberta's budget—resource price declines and provincial revenues

It is widely understood that Alberta's fiscal situation has deteriorated because of the sudden decline in oil prices and the less-remarked but still significant decline in natural gas prices. In *Budget 2014*, the province assumed (for the 2014/15 fiscal year) an average annual per-barrel oil price (West Texas Intermediate) of US$95.22; an annual average price for natural gas of CA$3.29/gigajoule (GJ), and a Canada–US dollar exchange rate of US91¢ (Alberta, 2014b: 9, 22, 30).

In Alberta, resource revenues account for a large share of the provincial budget and can vary widely as a proportion of total revenues in any given year depending on the price of oil or natural gas (Alberta, 2014b: 31). Resource revenues accounted for 40% of all provincial revenues in 2005/06, as low as 19% in 2009/10 and, in the most recent year, 2013/14, for 21% of total revenues (Alberta, 2014a: 22). The direct fiscal impact upon provincial revenues for 2014/15 was estimated as follows: for every dollar decline in the

1. The provincial government's fiscal year is from April 1 to March 31. Thus the 2014/15 fiscal year is from April 1, 2014 to March 31, 2015.

price of oil, a $215 million reduction in revenues; for every 10¢ reduction in gas prices, an $8 million reduction in royalty revenue[2] (Alberta, 2014b: 31).[3]

Alberta's budget—program spending patterns 1993/94–2013/14

Understanding Alberta's spending is critical to understanding the present budget difficulties in Alberta. This section will highlight the record of program spending[4] from 1993/94 to 2013/14 and focuses on this question: If program spending had been moderated in recent years (2005/06 to 2013/14 inclusive), how much extra fiscal room would that have freed up for other priorities, such as infrastructure (Milke, 2014) or for additional Alberta Heritage Fund deposits (noted later in this report)?

The fiscal years examined in this section begin with 1993/94 as that year was just prior to significant expenditure reductions in the province by the government of then Premier Ralph Klein (**figure 1**). Thus, the reader will be able to compare a high-spending year (1993/94) with what came afterwards.

Per-person program spending—2004/05, back to early 1990s highs

In 1993/94, per-person program spending (in real dollars[5]) was $8,978. Ralph Klein's government, including then Finance Minister Jim Dinning, cut program spending back to $6,828 per person by 1996/97. By 2004/05, per-person program spending had risen again to $8,965. Whatever debates might exist about the proper level of spending in Alberta, by 2004/05 it was clear that in real per-capita terms, program spending had returned to the levels of the early 1990s.[6]

2. In the province's favour, for every one-cent decrease in the value of the Canadian dollar relative to the US dollar, there is a $241-million increase in revenue (Alberta, 2014b: 31).

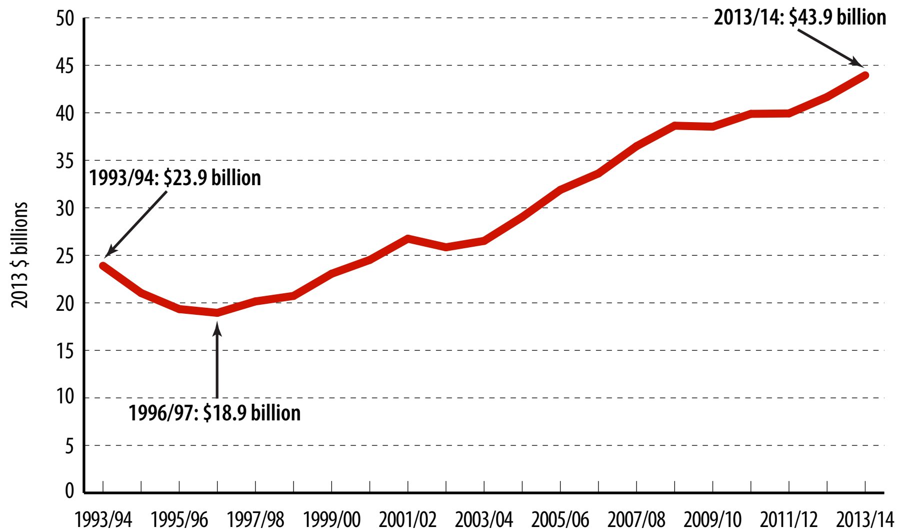
3. Readers should understand that *Budget 2014* estimates for oil and gas prices and the dollar exchange are annual averages. As a result, recent spot prices, and thus a US$50 WTI barrel of oil price on one day, does not mean that the province of Alberta has missed its budget estimate by $45.22, for example; the final average price will depend on the price of oil averaged over the fiscal year.

4. One could examine total government spending here instead. That measurement would include interest payments on provincial debt and also capital spending (in addition to program spending). However, given that Alberta has experienced strong interprovincial migration over the decades (Statistics Canada, 2014a) bringing new residents who require schools, hospitals, and other infrastructure, it is useful to separate program spending from capital spending precisely because more prudent program spending allows for more capital spending, among other options.

5. All figures in this report are adjusted to 2013 dollars unless otherwise noted.

6. All figures in this section on program spending are from Alberta 2014a: 22 and Statistics Canada, 2014b, 2014c unless otherwise noted.

Figure 1: Alberta program spending (2013 $ billions), 1993/94–2013/14



Sources: Alberta, 2011, 2014a; Statistics Canada, 2014b, 2014c; calculations by authors.

It is unsurprising that per-capita program spending trended upwards again after the 1996/97 low point. The province wrestled program spending lower in the mid-1990s in the midst of dire fiscal circumstances. Those circumstances included: relatively low oil prices after 1985, which only recovered briefly in 1990 before declining again in 1991; an early 1990s recession; high interest rates;[7] and relatively high provincial government spending on a per-capita basis (US Energy Administration, undated; Cross and Bergevin, 2012: 12; Bank of Canada, undated; Alberta, 2014a: 22; Milke, 2014).

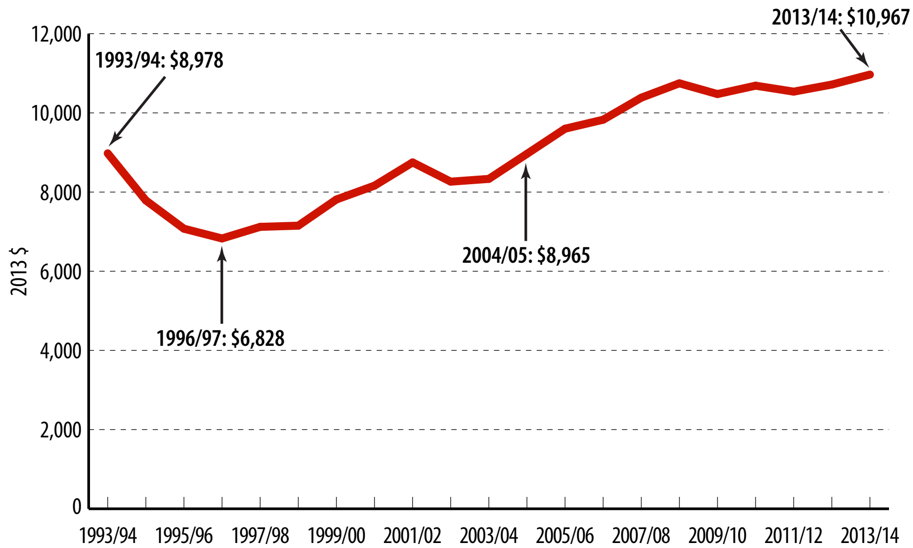
The Klein government, by restraining government spending, eventually moderated the amount of tax revenue diverted to items such as debt interest (this after the reappearance of surpluses). That allowed the province to later spend more on programs. Also, annual resource revenues were significantly higher in the 2000s than in the 1990s. That too allowed for higher per-capita spending.

Program spending after 2004/05

After 2004/05, however, successive Alberta premiers and finance ministers allowed program spending to escalate yet higher and beyond inflation and population growth. The result was that by 2013/14 the province spent $10,967 per person on government programs. That was $2,002 higher per person than in 2004/05 (**figure 2**).

7. That deficits, debt, and high interest rates mattered (negatively) to Alberta's finances in the early and mid-1990s is illustrated from Alberta's 1995/96 expenditures. Out of $14.4 billion in total spending, $1.7 billion was spent on interest on the provincial debt. That was more than the amount spent on social services that year (just under $1.5 billion) and about 45% of the $3.8 billion spent on health care that year (Alberta, 2014a: 22).

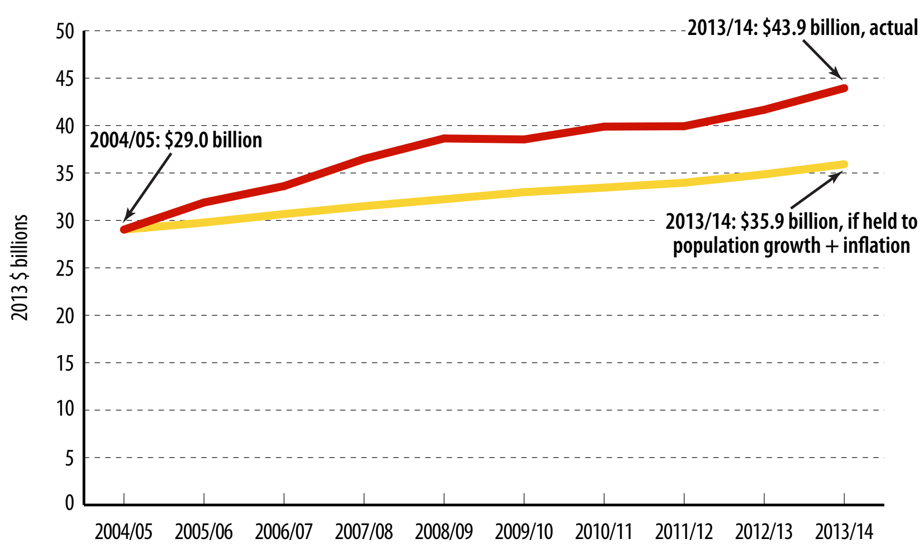
Figure 2: Alberta program spending *per capita* (2013 $), 1993/94–2013/14



Sources: Alberta, 2011, 2014a; Statistics Canada, 2014b, 2014c; calculations by authors.

Also, on a per-year analysis (**figure 3**), had the province increased program spending after 2004/05 by no more than population growth plus inflation, by 2013/14 the province would have spent $35.9 billion on programs. Instead, the province spent $43.9 billion, an $8 billion difference (figure 3). That extra spending beyond inflation and population growth meant that the province spent $344.6 billion on programs between 2005/06 and 2013/14 inclusive. Had the province increased program spending after 2004/05 to allow for inflation plus population growth, but only within those parameters, the province would have spent $295.4 billion, a $49.2 billion difference.

Figure 3: Alberta program spending (2013 $ billions)—actual compared to amount if held to population growth + inflation, since 2004/05



Sources: Alberta, 2011, 2014a; Statistics Canada, 2014b, 2014c; calculations by authors.

Critically, program spending that allowed for the combined effect of population growth and inflation but not above that marker would have meant the province would be well positioned to weather low oil prices now. Its annual program spending, if at $35.9 billion in 2013/14 instead of $43.9 billion, would make current budget discussions substantially different from how they have developed in the new era of low oil prices; such past prudence would have provided an extra $8-billion in fiscal room in 2013/14. Today, the discussions would center on choices about a provincial budget surplus—more capital spending, or tax relief, or deposits into the Alberta Heritage and Savings Trust Fund. Instead, as the Premier has remarked, Albertans face the prospect of a deficit this fiscal year now ending and a deeper deficit in 2015/16.

Implications for the future—how the province might have curbed spending

Between 2005/06 and 2013/14 (that is, using 2004/05 as the base year) Alberta's provincial government chose to spend in excess of the combined effect of inflation and population growth. In so doing, it sacrificed options for internally financed capital spending, tax relief, and/or Heritage Fund deposits.

As for how the province might have spent less during that period, several answers are available, found in past choices. They are relevant to budget choices yet to be made by the provincial government. Much of the spending growth incurred above inflation and above population growth can be traced to the public sector and how it has "swallowed" extra revenues available to the province.

As Charles Lammam and his coauthors have noted, public-sector workers located in Alberta enjoyed, on average, a 6.9% wage premium over their private-sector colleagues.[8] This percentage is based on *Labour Force Survey* data from Statistics Canada and controls for factors such as education, length of time in the workforce, and other relevant factors; see Lammam et al., 2015: iii). Such factors matter because there are additional costs beyond wages associated with the government sector and factors unique to that sector. For example, in Alberta, public-sector workers retire 1.3 years earlier, on average, than private-sector workers. They are also more likely to be covered by a registered pension plan: 77.7% in the public sector compared to just 21.8% in the private sector (Lammam et al., 2015: iv).

8. Note that the wage premium is an average across the entire public sector in Alberta—federal, provincial, and municipal. Figures for provincial public-sector workers alone were not available from Statistics Canada.

Importantly, for those who look towards future budgets, such government-employee and broader public-sector pension plans are normally of the defined benefit variety. In recent years, increasing liabilities have required higher contributions and special contributions from taxpayers.

For example, in 2002/03, the province made what was supposed to be a "one-time" payment of $60 million (in nominal dollars) towards what is known as the "pre-1992" Teachers' Pension Plan.[9] However, in 2009/10, the Alberta government paid another $1.2 billion (nominal) in a special payment towards the unfunded pre-1992 shortfall in the Teachers' Pension Plan (Alberta, 2010: 61).

Two other examples of past spending choices are relevant, one from government employees' pensions and one from contract negotiations. On pensions, in Alberta, of those who have a registered pension plan, 97.4% of those are defined benefit plans (Lammam et al., 2015: 15). The reality of defined benefit plans in the government sector means that contribution rates must rise if defined benefit plans are to pay out such guaranteed benefits.

In Alberta, between 2000 and 2013, contribution rates paid by the employer, that is, the provincial government, were raised by anywhere from 18% to 116% over existing contribution rates (Milke and Lang, 2013: 20–21).[10] That is costly to the provincial treasury.

Lastly, an example of compensation issues: in 2007, the province signed a five-year contract with Alberta's teachers. The 2007–2012 deal meant that teachers' salaries, as described by the province itself, would grow at "nearly double the rate of inflation over this period" (Alberta, 2011: 31). That too is costly.

Implications for spending

Program spending is difficult to "rein in" given that a substantial portion of such tax-supported spending is tied closely to compensation for government employees and the broader public sector. Such compensation arrangements are typically negotiated on a multi-year basis. Thus, all such previously noted examples, figures, decisions and contracts matter to Alberta's fiscal balance and to other possible choices for Albertans' dollars.

In Alberta, public-sector wages, salaries, and benefits accounted for just over half of Alberta's program spending in 2013/14, or $22.5 billion of the $43.9 billion spent on programs by the province that year (Alberta, 2014a: 22; 2015: 3).

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9. The Teachers' Pension Plan in Alberta is actually two separate entities—one pre- and one post-1992 (Alberta, 2003: 42).

10. See Milke and Lang, 2013 for a discussion of government-sector pension reform.

An example of a lost opportunity—Alberta Heritage Savings Trust Fund and missed deposits

This report will now analyze a lost opportunity from the extra $49.2 billion in program spending over and above the combined effect of inflation and population growth from 2005/06 to 2013/14: missed deposits into the Alberta Heritage Savings Trust Fund. While discussion over the Alberta Heritage Savings Trust Fund is temporarily muted because of concerns over the provincial budget deficit, some have advocated for higher taxes on the basis that the Alberta government should make regular and significant deposits into the Heritage Fund. As this analysis will show, as per other lost opportunities due to runaway government program spending in Alberta, the Heritage Fund could have seen significant deposits over the past decade—had spending been more carefully controlled while it increased. It is a lesson from the past for the future.

What is a trust fund?

As Jonathan Anderson notes, a trust fund is essentially a contract governing future use of specified resources (2002: 64). As it concerns public trusts, dedicated revenue streams are often established in tandem with public trusts and the source and use of revenue is stipulated—though this is not always the case and has not been in Alberta, as will be noted shortly. Three resource revenue trust funds are profiled in this report: the Alberta Heritage Savings Trust Fund, the Alaska Permanent Fund, and Norway's Petroleum Fund.

In Alberta, the Alberta Heritage Savings Trust Fund has been the subject of vigorous public, political, and academic debate over the decades. The fund, created by the Alberta government in 1977[11] was immediately funded with a portion of resource revenues, a practice that continued up to and including 1987, though in ever smaller proportions of resource revenues. After 1987, no deposit was made into the fund until nearly two decades later, when deposits were resumed briefly between 2006 and 2008 only to cease once again thereafter (Alberta, 2014c).

The Alaska Permanent Fund, also a resource trust fund, accepted its first deposit in 1978 (Alaska, 2013); Norway's Petroleum Fund, a resource trust fund that the Norwegian government created, accepted its first deposit in 1996 (Norges Bank, 2013).This study will examine, first, the rules and

11. All full-year fiscal year references in this study refer to fiscal years for the funds in question. For the Alberta Heritage Savings and Trust Fund, the fiscal year runs from April 1 to March 31, thus "1977" refers to the year from April 1, 1976 to March 31, 1977.

practices of two other resource funds in addition to Alberta's; second, the potential for deposits into the Alberta Heritage Fund had the rules that were established in Alaska and Norway been followed in Alberta in recent years; third, how realistic additional deposits into the Heritage Fund might have been made in the years 2005/06 to 2013/14.

A brief review of three resource funds in Alberta, Alaska and Norway[12]

Murphy and Clemens (2013) and Milke (2006) have previously detailed the origin and rules that accompany the Alberta Heritage Savings Trust Fund, Alaska's Permanent Fund, and Norway's Petroleum Fund (also known as the Norway Government Pension Fund Global). Those previous reports also provided scenarios that estimated potential deposits into the Heritage Fund over its history and based on rules in the latter two funds.

The purpose of this paper is to offer a more recent scenario and to pose two questions: [1] What if the rules on deposits from those two other funds were applied in the period from 2005/06 to 2013/14; [2] What was the realistic chance of so doing based on more controlled program spending in Alberta? Consequently, this report will review each fund only briefly.

Alberta Heritage Savings Trust Fund

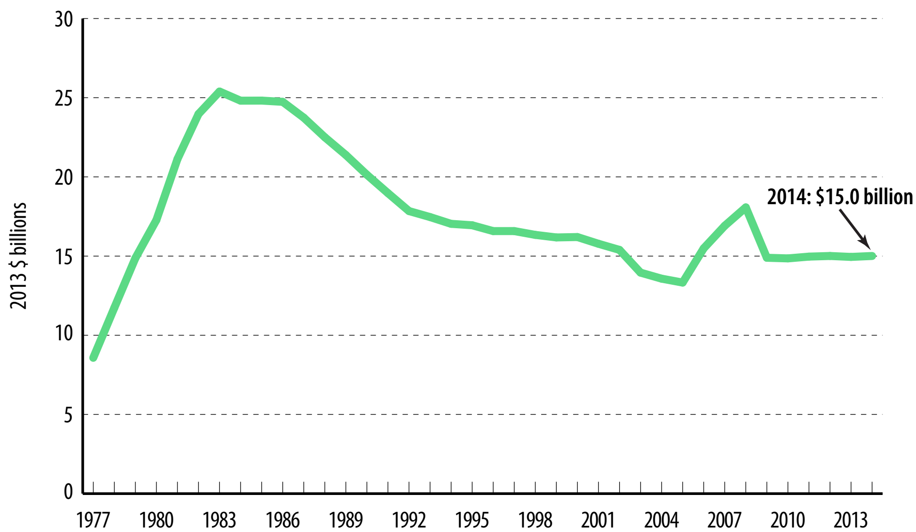
In 1976, as a result of an initiative by Alberta's then-Premier Peter Lougheed, the Alberta Heritage Savings Trust Fund Act was created, given royal assent, and initially tasked with three objectives: to save for the future; to strengthen or diversify the economy; and to improve the quality of life of Albertans. Initial deposits in the Alberta Heritage Savings Trust Fund (AHSTF) occurred in the 1976/77 fiscal year and came from two sources. The first source was 30% of the non-renewable resource revenue received by the Government of Alberta from April 1, 1976 to March 31, 1977, or $620 million. The second source was a special contribution of $1.5 billion in cash and other financial assets transferred from Alberta's General Revenue Fund to the Heritage Fund on August 30, 1976.

As Rognvaldur Hannesson, a professor who specializes in resource economics at Norwegian School of Economics notes, 30% of Alberta's oil and gas revenues were initially deposited into the AHSTF every year (Hannesson, 2001: 72). However, Alberta's allocation was gradually scaled back and deposits ended completely after 1987 after the price of oil collapsed the previous year. The next deposits did not occur until nearly two decades later, between 2006 and 2008, when the Alberta government deposited $4.5

12. All figures presented for the three funds are in CAD dollars. The implied PPP conversion rate from the International Monetary Fund's World Economic Outlook database [IMF WEO] for the appropriate year was used to transform the Alaska Permanent Fund and Norway's Government Petroleum Fund balances from their national currency to CAD dollars. See IMF, 2014.

billion[13] into the AHSTF ($3.9 billion in nominal dollars). As of 2014, the fund balance stood at CA$15.0 billion (Alberta, 2014c; Statistics Canada, 2014b; authors' calculations) (**figure 4**).

Figure 4: Alberta Heritage and Savings Trust Fund (2013 $ billions), balance at year end, 1977–2014



Sources: Alberta Heritage and Savings Trust Fund (various years), *Annual Report*; Statistics Canada, 2014b; calculations by authors.

The Alaska Permanent Fund

The political spur for the creation of the Alaska Permanent Fund (APF) began in the 1960s. In 1968, after oil was first pumped from Prudhoe Bay, the state held an auction the following year for oil leases; the result was a US$900 million windfall when the annual state budget was barely more than $100 million. "This shower of riches sent Alaska into a frenzy of public spending, particularly on capital projects" notes Anderson (2002: 58). In fact: "By 1976 the state had spent most of the initial lease money, and Alaskans were aghast they had frittered away so much in so short a time. Fears of uncontrolled legislative spending had been confirmed, and Alaskans sought ways to protect their natural resource revenues for future generations" (Anderson, 2002: 58–59).

In 1976, on the urging of Governor Jay Hammond, the Alaska legislature crafted a constitutional amendment that called for the creation of a permanent fund to preserve a portion of oil revenues for future generations. In November 1976, the voters approved the amendment by a two-to-one margin. It stated

13. Actual transfers into the Heritage Fund include the deposits of $750 million in 2005/06 and $250 million in 2006/07 made to the Advanced Education Fund, a "sub-fund" of the AHSTF, as per the Access to the Future Act, section 4(4) (Alberta, 2014d). The Access to the Future Act allows for a maximum of $3 billion to be transferred to the Fund to support the advanced education endowment.

that: "At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments" (Alaska, undated).

Thus, and critically, Alaska prohibits by law any use of the principal without referendum approval; the government can only make use of the fund's earnings. (As well, in addition to the constitutionally mandated 25% rule, later Alaska law, the 1980 Permanent Fund Act, requires that 50% of all newer mineral lease rentals, royalties, royalty sale proceeds, net profit shares (and other related revenues from the same) be deposited into the fund (Alaska, 1980: Sec. 37.13.010, Sec. 37.13.020; 1997: 37).

In short, apart from any legislative direction *above* voter-approved constitutionally mandated minimums, the Alaska government cannot change the constitutional directives that require [1] a minimum of 25% of resource revenues to be deposited into the fund, and [2] that the fund principal be "off limits" to the legislature. The result is that Alaska has a institutional control and safeguard on the fund very different than Alberta's, where no such voter or constitutional safeguards exist.

The first transfer of resource revenues into the Alaska Permanent Fund occurred in 1977; additional deposits have been made over the decades. As of June 30, 2014, the fund's value was CA$63.7 billion (Alaska, 2014; IMF, 2014; Statistics Canada, 2014b; authors' calculations) (**figure 5**).

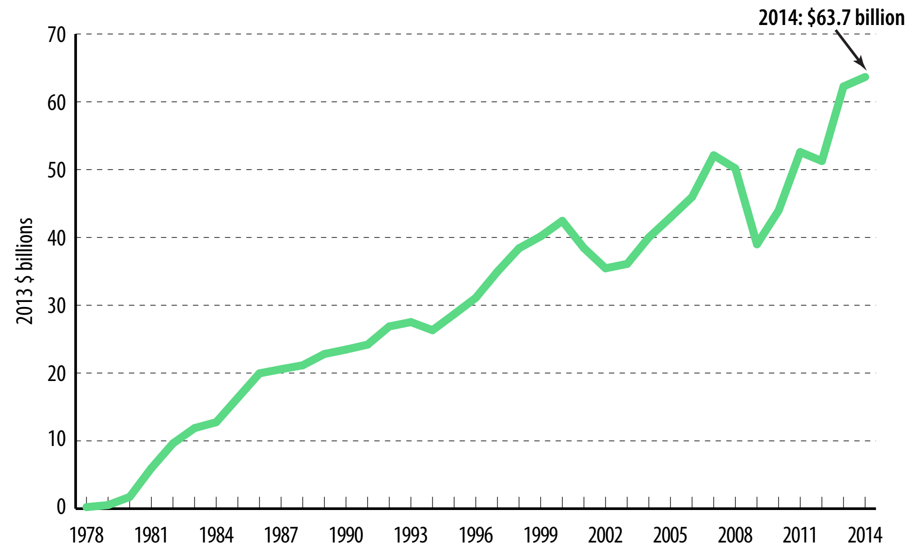
Norway's Government Petroleum Fund

Norway's Government Petroleum Fund was created in 1990 to build up financial reserves and to share current resource revenues with future generations. Due to the recession in the early 1990s, no contributions were deposited until 1996. Since that year, a significant inflow of revenue has been deposited and the principal has soared. The Ministry of Finance is responsible for the fund but it is managed on a daily basis by Norway's central bank, Norges Bank. Fund management is separated from the management of official currency reserves and from ordinary central bank functions (Antolin and Suyker, 2001: 5).

The 1990 legislation defines cash flow and directs that all *net* proceeds from petroleum earnings be placed in the fund. Capital in the fund cannot be transferred out unless authorized with specific legislation from the Norwegian Parliament (the *Storting*). In Norway, while the ideal of 100% of resource revenues deposited into the Petroleum Fund is not strictly met every year, this report will assume 100% for the sake of simplicity and given that management of that fund has "approximated it surprisingly well" (Murphy and Clemens, 2013: 6, 28–33).

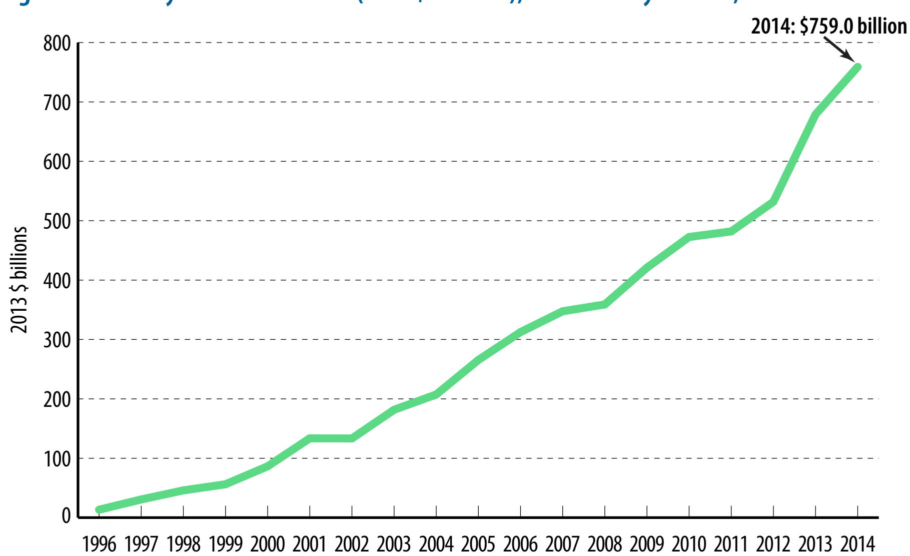
As of September 30, 2014, the market value of Norway's Petroleum Fund was CA$759.0 billion (Norges Bank, 2003; 2011, 2014; IMF, 2014; Statistics Canada, 2014b; authors' calculations) (**figure 6**).

Figure 5: Alaska Permanent Fund (2013 $ billions), balance at year end, 1978–2014



Sources: Alaska Permanent Fund, (various years), *Annual Report*; Statistics Canada, 2014b; International Monetary Fund, 2014; calculations by authors.

Figure 6: Norway Petroleum Fund (2013 $ billions), balance at year end, 1996–2014



Sources: Norges Bank, (various years), *Annual Report*; Statistics Canada, 2014b; International Monetary Fund, 2014; calculations by authors.

Could Alberta have deposited more into the Heritage Savings Trust Fund?

This section will examine what imitating Alaska's constitutionally binding 25% rule and Norway's legislative intended 100% rule (both as a percentage of resource revenues) would mean for deposits to Alberta's Heritage Savings Trust Fund. But first, we examine the feasibility of such deposits.

The first part of this report presented how the province spent $49.2 billion extra on programs beyond what was necessary to "keep up" with population growth and inflation between 2005/06 and 2013/14 (inclusive). In short—and assuming no change in the underlying budgetary balance, net financial assets, and no change in the borrowing that occurred—the Alberta government had the opportunity to use $49.2 billion in fiscal room differently in that period. It could have used the $49.2 billion for tax relief, additional capital spending, or (for the purposes of this section) additional deposits into the Heritage Savings Trust Fund.

Alberta's Heritage Savings Trust Fund—two scenarios and actual deposits

Had the province chosen another, more prudent fiscal path, some fiscal room could have been created and thus allowed for extra deposits into the Heritage Savings Trust Fund. With reference to the two other resource funds and their rules as a guide (Alaska's constitutional rule of 25% of non-renewable resource revenues; Alaska's legislative rule of 50% of new oil and gas field revenues; and Norway's legislative guide of 100% net resource revenues), what follows is a calculation of what such percentages would have meant for additional deposits only (not total fund values) into the Alberta Heritage Savings Trust Fund.

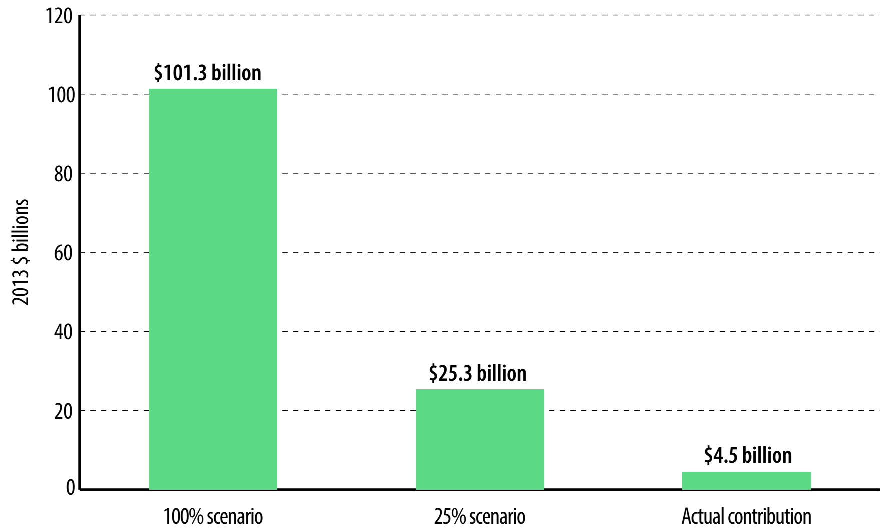
Between 2005/06 and 2013/14, and adjusted for inflation, the province of Alberta garnered $101.3 billion in resource revenues (Alberta, 2014a; Statistics Canada, 2014b; authors' calculations). Had Alberta followed a rule that required 25% of all resource revenues to be deposited into the Heritage Savings Trust Fund from 2005/06 to 2013/14 inclusive, instead of just $4.5 billion the deposits would have amounted to $25.3 billion (**figure 7**).

Had the province chosen Norway's model, where an intended 100% of net resource revenues are to be deposited, the amount deposited into Alberta's Heritage Savings Trust Fund would not have been $4.5 billion but the full amount of resource revenues: $101.3 billion (figure 7).

Given what we now know about that period—that Alberta spent an extra $49.2 billion on programs above inflation and above population growth—a deposit of $25.3 billion into the Heritage Savings Trust Fund would not have been unreasonable. Instead, the province deposited just $4.5 billion, or 4.5% of all resource revenues during those years (**figure 8**).[14]

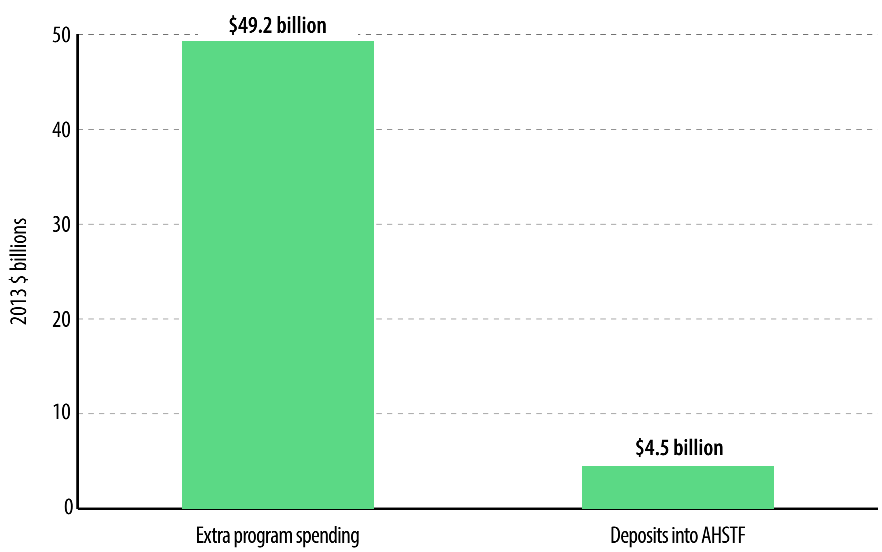
14. This also assumes no change from the actual, net financial asset position of the province during this period. It should be noted, however, that the scenario presented here does not assume the entire $49.2 billion in fiscal room would have been reallocated into the Heritage Savings Trust Fund. Any difference between that deposited into the fund and what remained in fiscal room could have been available for other purposes, including preventing a decline in net financial assets.

Figure 7: Contributions to Alberta Heritage and Savings Trust Fund (2013 $ billions), actual compared to 100% and 25% of resource revenues, 2005/06–2013/14



Note: **Actual contributions** include deposits made into the Advanced Education Fund, a "sub-fund" in the Alberta Heritage and Savings Trust Fund, as per Alberta, 2014e.
Sources: Alberta, 1997, 2014a, 2014b; Statistics Canada, 2014b; calculations by authors.

Figure 8: Deposits into Alberta Heritage and Savings Trust Fund (2013 $ billions), compared to cumulative growth in progam spending above population growth + inflation, 2005/06–2013/14



Note: **Deposts into AHSTF** include deposits made into the Advanced Education Fund, a "sub-fund" in the Alberta Heritage and Savings Trust Fund, as per Alberta, 2014e.
Sources: Alberta, 1997, 2014a, 2014b; Statistics Canada, 2014b, 2014c; calculations by authors.

Conclusions

Derived from the focus of this report, two recommendations flow straightforwardly from an examination of the past fiscal choices chronicled here.

First, the decision by the province to spend (on programs) above the combined effect of population growth and inflation between 2005/06 and 2013/14 inclusive built in higher annual spending obligations, that, once revenues declined, would open up a fiscal gap in the province's budget. As of 2013/14, the result of spending more on programs than inflation plus population growth combined would warrant meant program expenses were $8 billion higher in that year alone. The province's past fiscal choices have now severely constricted present choices on everything from balanced budgets to tax relief to additional capital spending. If the province wishes to have a better menu of choices in the future, it must, obviously, control expenditures more carefully.

Second, if, in the future, Albertans or their provincial government wish to make substantial deposits into the Alberta Heritage Savings Trust Fund, more carefully controlled program expenditures would allow for such choices. As it happens, between 2005/06 and 2013/14, the province sacrificed the potential to follow the Alaska model and its 25% rule.

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