

## LEGISLATIVE ASSEMBLY OF ALBERTA

Title: **Friday, March 20, 1987 3:00 p.m.**

Date: 87/03/20

[The House met at 3 p.m.]

[Mr. Speaker in the Chair]

MR. JOHNSTON: Mr. Speaker, I have received certain messages from Her Honour the Honourable the Lieutenant Governor, which I now transmit to you.

SERGEANT-AT-ARMS: Order!

MR. SPEAKER: The Lieutenant Governor transmits estimates of certain sums required for the service of the province for the 12 months ending March 31, 1988, and recommends the same to the Legislative Assembly.

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The Lieutenant Governor transmits an estimate of a certain sum required from the Alberta Heritage Savings Trust Fund for the 12 months ending March 31, 1988, for the purpose of making investments, pursuant to section 6(1)(a) of the Alberta Heritage Savings Trust Fund Act, in projects which will provide long-term economic or social benefits to the people of Alberta but which may not necessarily by their nature yield a return to the trust fund, and recommends the same to the Legislative Assembly.

Please be seated.

head: **GOVERNMENT MOTIONS**

4. Moved by Mr. Johnston:

Be it resolved that the messages of Her Honour the Honourable the Lieutenant Governor, the estimates, and all matters connected therewith, be referred to the Committee of Supply.

[Motion carried]

5. Moved by Mr. Johnston:

Be it resolved that the Legislative Assembly do resolve itself into Committee of Supply, when called, to consider the supply to be granted to Her Majesty.

[Motion carried]

6. Moved by Mr. Johnston:

Be it resolved that the Legislative Assembly approve in general the fiscal policies of the government.

head: **BUDGET ADDRESS**

MR. JOHNSTON: Mr. Speaker, the events of the past year have significantly tested the will and determination of the people of Alberta and this government. When I presented the 1986 Budget Update to the Legislative Assembly last June, we faced uncertainty in the export markets for all our basic commodities. Agriculture prices were falling as a result of world grain surpluses, and our farming sector was experiencing financial difficulties. As well, the world was abruptly reminded that the petroleum industry is cyclical and volatile. The worldwide collapse in prices for oil and natural gas, driven by an oversupply of these commodities, was in startling contrast to what had been confidently predicted only one year before.

The impact on the Alberta economy has been extreme and difficult. However, with our strong financial position built over the past decade, we have been able to respond to these unforeseen events despite a sharp reduction in provincial revenue. The effect on our '86-87 fiscal plan will be an annual deficit forecast at \$3.3 billion, or about \$1,400 for each Albertan.

With per capita spending levels that exceed those in other provinces by a substantial margin and with reduced oil and gas revenue, we must make the necessary fiscal corrections without delay. Therefore, this budget proposes tough measures to address the new fiscal challenges facing Alberta.

This government is determined not to allow the accumulated provincial deficit to grow unchecked. Our 1987 budget is part of a medium-term fiscal plan which will see the annual deficit shrink by 40 percent, or \$1.4 billion, in '87-88 and move to a balanced budget by 1990-91.

This government pledges to protect those Albertans in need. Our budget meets this commitment.

This government is dedicated to maintaining quality services. Our budget asks Albertans to pay for a larger portion of the cost of these services.

This government is committed to fairness. Our budget equitably shares the burden of deficit reduction.

This budget demonstrates the government's ability to manage in difficult times, to set a course which will lead Alberta through this period, and to set priorities and initiate responsible actions that will position our province for the opportunities that lie ahead.

### **Economic Situation and Outlook**

Before discussing our fiscal strategy for '87-88, I would like to review the economic environment. Developments and trends beyond our borders and beyond our control greatly influence Alberta's economic performance and fiscal plan.

### **International Economy**

Without question, the key international development in 1986 from Alberta's perspective was the drop in world oil prices. When OPEC, led by Saudi Arabia, moved to increase production, oil prices fell by more than one-half. Uncertainty plagued world oil markets for most of the year.

At their December '86 meeting OPEC members agreed to reduce oil production to support prices. As a result, prices should be more stable in '87, but fluctuations, particularly this spring, are likely. Nonetheless, I expect world oil prices to firm around the OPEC target of \$18 U.S. per barrel by year-end.

The other key development in world commodity markets in

'86 was the fall in grain prices. The world oversupply of grain, aggravated by the struggle between the United States and the European Economic Community over subsidies, drove grain prices down. As long as grain stocks are high and the Americans and Europeans continue this battle, prices will remain weak.

Developments in the United States, our major international market, are also of particular significance. Real economic activity grew about 2.5 percent last year and should post a similar increase in 1987. Although the American trade deficit should improve in 1987, protectionism remains a concern and a sound reason to support the current bilateral trade talks.

### **Alberta Economy**

In 1986 Alberta felt the brunt of lower world commodity prices through a sharp reversal in our trade balance. While the value of imports continued to rise, the value of exports fell dramatically. Export volumes were reasonably firm, but the price of oil, natural gas, and grain dropped sharply. The net effect was a marked decline in export earnings which hurt activity and employment in our core industries.

### **Oil and Gas**

After record setting activity during the first quarter of 1986, oil and gas drilling fell in the second quarter. Reacting to the uncertainty over oil prices and reduced cash flow, oil companies scaled back their exploration and development expenditure.

The Alberta government moved quickly. In the spring we enhanced the royalty tax credit and introduced the exploratory and development drilling assistance program, the well-servicing assistance program, and the geophysical assistance program. These temporary measures, valued at \$600 million, were designed to help the industry through a highly uncertain period by bolstering producer cash flow, encouraging drilling, and maintaining jobs.

When world oil prices remained low through the fall, we adjusted the fiscal regime governing exploration, development, and production. This massive \$1 billion initiative reduced royalty rates on crude oil and natural gas, provided up to a five-year royalty holiday on new oil wells, and extended the enriched royalty tax credit, which particularly assists small producers. The adjustments will yield ongoing benefits to Alberta's exploration and production companies.

Alberta also took prompt action to protect our nonconventional oil industry. We entered into an interest-free loan agreement of \$85 million with Syncrude to maintain the momentum on the expansion project. In addition, the Alberta, federal, and Saskatchewan governments committed a total of \$63 million to continue engineering work on Husky Oil Ltd.'s heavy oil upgrader near Lloydminster.

The Alberta government has done its part to respond to the oil price crisis. Last June I called on the federal government to eliminate the discriminatory petroleum and gas revenue tax. The subsequent removal of this tax, although welcomed, should not be considered as a special favour for the oil industry. All that Alberta wants is fair treatment from the federal government. Albertans find it hard to reconcile the notion that when oil prices were high, energy policy was a national concern, but when energy prices drop sharply, energy policy becomes a provincial matter.

The oil industry is a strategic national industry, vital to Canada's long-term energy security and economic prosperity. Reduced gasoline and heating bills are detracting Canadians from the real problem of steadily rising foreign imports. In 1985 Canada was a net exporter of light crude. This year we likely will import 100,000 barrels per day more than we export as the productive capacity of large Alberta pools discovered before 1974 begins a steep decline.

Without investment in new sources of crude oil supply, Canada will be importing one-quarter of its total light oil needs in four years. This dependence could grow to 50 percent by the turn of the century. People in Atlantic Canada, Quebec, and Ontario — two out of every three Canadians — could be reliant on foreign suppliers for their crude oil. Even relatively minor supply disruptions in the Middle East would then seriously harm Canada's economy.

By 1990, OPEC is expected to be producing at 80 percent of its capacity. The cartel has been able to set world oil prices when this level of capacity utilization has prevailed in the past. Without new domestic supplies Canada's international balance of payments would be at risk and future economic growth would be jeopardized.

The price fall has seriously hurt the energy industry. It is not in a position to finance the exploration that must be done today to yield the production Canada needs tomorrow. Immediate federal assistance is required to restore investment in exploration and oil sands development and to retain the human skills that Canada will surely need in the 1990s. This assistance need not be inconsistent with federal tax reform.

### **Agriculture**

Last year Alberta farmers enjoyed a record harvest, well above the previous high. While yields were up, quality was reduced due to bad weather during the harvest. This aggravated an already weak price situation brought on by excess international supplies. Higher crop insurance and stabilization payments limited the decline in crop receipts to 13 percent.

Alberta's agricultural base has a good balance between its crop and livestock sectors. The livestock sector strengthened in 1986. Hog receipts, up about 11 percent, led the way. Cattle receipts rose 7 percent, and dairy receipts increased by 5 percent. The red meat stabilization and livestock assistance programs provided \$143 million to Alberta producers in 1986 and contributed significantly to the strength in the livestock sector.

Largely due to government initiatives, farm and ranch operating costs declined by about \$260 million in 1986, softening the blow of falling grain prices. Fuel expenses dropped by over 50 percent due to the Alberta government's doubling of the farm fuel distribution allowance, the increase in the federal tax rebate, and declining oil prices. Fertilizer expenses fell by over 15 percent, thanks in part to the Alberta farm fertilizer price protection plan. The innovative Alberta farm credit stability program was a key factor in lowering interest costs. Feed expenses dropped by about one-third to the lowest levels since 1978, assisted substantially by the \$78 million provided by the Alberta feed grain market adjustment program.

Realized net income of Alberta farmers and ranchers increased by over 40 percent in 1986. Clearly, this government puts its commitment into action by providing stabilization and insurance initiatives and by reducing major input costs.

## Service Sector

The service sector cushioned the Alberta economy from price shocks in international commodity markets. Many may not realize that Alberta no longer has a two-dimensional economy. Since 1971 service sector output has grown eightfold and created over 407,000 jobs. Today it accounts for the largest share by far of the economy's output and employment.

Activity in the service sector is mainly influenced by demographics, income levels, and government expenditure, factors which change relatively slowly. This accounts for its resilience.

One of the service sector's key components is retail trade. In 1986 consumers continued to show confidence in the Alberta economy. Retail sales were up 5 percent compared to 1985.

Complementing the retail sector is Alberta's growing reputation as a major tourist attraction. This government's objective to broaden Alberta's economic base through tourism is paying dividends in the form of more jobs.

Another major factor boosting performance in 1986 was the provincial government's continuing strong support for health, education, and other social services. The Alberta government also provided significant long-lasting support through the \$1 billion Alberta small business term assistance plan to the numerous small businesses in the service industry.

## Labour Market

Although Alberta's labour market was weakened by the sharp decline in world oil prices, the overall impact was not as severe as many had predicted. Alberta continued to lead the country through 1986 in terms of the number of persons employed as a percentage of total working-age population.

Employment in 1986 was on average up 2 percent over 1985, although a downward trend began in the second quarter. By year-end the unemployment rate stood at over 10 percent.

The government took action to strengthen Alberta's labour market as oil and grain prices fell. Our support to the vital energy and agriculture industries helped maintain jobs. As well, direct job-creation and training programs further eased unemployment and improved the job prospects of many unemployed Albertans.

## Summary of 1986

In summary, Mr. Speaker, the Alberta economy was able to produce the same volume of goods and services in 1986 as in 1985, but the steep decline in the price of several key commodities meant that the value of production declined by about 10 percent.

Nonetheless, the value of Alberta's economic activity on a per capita basis is still expected to exceed the Canadian figure by about 30 percent.

The Alberta economy showed its underlying strength in 1986. Albertans, with their optimism and ingenuity in finding new opportunities, maintain a level of confidence and staying power that has surprised many observers. As well, the Alberta government ran an enormous deficit, which shouldered much of the decline in commodity prices.

## The Outlook for 1987

Well, what is in store for 1987? Our oil and gas sector has

largely absorbed the direct impacts of sharply lower prices. The indirect effects, however, have yet to work their way fully through the economy and will continue to exert a drag on growth this year. This should not be surprising given the severity of the price shock.

I expect to see renewed oil industry investment in the third quarter, accelerating in the fourth quarter with the start of the winter drilling season. Nonetheless, drilling could be down on average from '86 as companies move cautiously and look to improve their cash flow and balance sheets. Federal incentives are a key to increasing drilling activity levels.

Despite declining conventional oil production, total crude oil production should increase slightly in 1987. The completion of the Interprovincial Pipe Line expansion should eliminate capacity related shut-in production. The volume of natural gas sales should increase, but prices are expected to weaken in 1987.

Grain prices are expected to decline given high world grain stocks and the international grain trading environment. However, the net benefits from ongoing government programs will continue at near record levels. Overall, about \$700 million of cash support will be provided to Alberta farmers by the provincial and federal governments in 1987.

The large and diverse service sector will continue to show resilience, although perhaps less so than in 1986. Retail sales will be less buoyant in 1987. Weak personal incomes, virtually no population growth due to out-migration, and a less expansionary government fiscal policy will constrain consumption. Government restraint will slow growth in the health and education components of the service sector.

Low interest rates will act as a buffer. Consumer goods, home ownership, and business investment will all become more attractive. Although the value of retail trade is unlikely to grow, Alberta will continue to rank near the top in retail sales per capita in Canada.

Unfortunately, the labour market is expected to weaken in 1987. The unemployment rate could average in the 11 percent range, a disturbing waste of human talent and spirit. The expenditure plan for 1987 responds to the need for employment support.

To ensure that public-sector wages are sensitive to unemployment levels and general economic and fiscal conditions, I released the government's fiscal policy statement in late January for use by arbitration boards.

Overall for the economy in 1987, I expect a small decline in the value of total economic activity, but Albertans should not lose sight of our advantages and medium-term opportunities.

## Medium-term Opportunities

Crude oil is a strategic, depleting resource. By limiting future production and encouraging consumption, current low world prices will bring about higher prices and expanding markets in the future. Alberta offers low finding and development costs, a highly encouraging fiscal regime, good geological potential, and enormous known reserves of oil sands and heavy oil. The pipeline system is in place to access markets in central Canada and the United States. Investment will be attracted to Alberta.

Natural gas also has a very promising future. The Americans will need our natural gas, and we now have the ability to be price competitive. Our huge reserves, pipeline infrastructure, and stable environment will make Alberta a key supplier of natural gas.

Our soil is rich and Alberta farmers use efficient and up-to-date production techniques. Because production is divided almost evenly between grain and livestock, our farmers are better able to withstand cyclical swings. The government's long-term fixed interest rate program will reduce costs and make it easier for Alberta farmers and ranchers to plan for the future.

We are succeeding in diversifying the economy. The recently announced ethylene plant to be constructed near Red Deer will enable us to process more of our own resources. Tourism is a real strength for Alberta. Visitors and Albertans alike are attracted to the province's beautiful and varied landscape, exciting cities, and excellent parks and recreational areas. The 1988 Calgary Winter Olympics will showcase Alberta to the world and boost our tourism and trade opportunities. Our forests contain large untapped reserves; we are attracting new investment in this sector.

Alberta has proven international strengths in technology and research as demonstrated by the achievements of the Alberta Research Council and the Alberta Heritage Foundation for Medical Research. Our universities, colleges, and technical institutions are playing a lead role in attracting investment and entrepreneurs to our province. It is important that co-operation and consultation continue with the private sector, ensuring further transfers of technology and encouraging more commercial initiatives in the knowledge-based industries.

We have in place the economic and social infrastructure to enable us to capitalize on our opportunities, and we have a government with a record of sound financial management and predictability that is essential to attracting new investment.

Alberta's most important resource is its people. We have a well-educated, highly skilled labour force with the talent and entrepreneurial skills to be competitive in the world marketplace.

### **Fiscal Situation and Strategy**

I now want to review the government's financial record and the fiscal framework for the four years ahead.

#### **A Tradition of Fiscal Responsibility**

The Alberta government has a long tradition of sound financial management and low tax rates. In 1976 we established the Alberta Heritage Savings Trust Fund. Instead of spending all of Alberta's nonrenewable resource revenue, we transferred a portion to the heritage fund for future use. Central to the thinking behind the heritage fund was that it would function as a savings account which would be there when we need it.

Faced with a large deficit, the government began transferring, in September 1982, all income earned on heritage fund assets to the General Revenue Fund to help finance people programs. Beginning in April 1983, the government reduced the allocation of resource revenue to the heritage fund from 30 percent to 15 percent.

We also moved to reduce expenditure growth by introducing a restraint program in 1983-84. This included a commitment to downsize the public service. Spending growth slowed sharply that year. Spending actually dropped in '84-85.

In '85-86 we moved to ensure the energy industry received the benefits from deregulation. Royalty rates were reduced and incentives increased. To protect our agriculture sector, we provided a massive two-year action plan.

In early '86 world oil prices suddenly plunged by one-half

Fortunately the government's record of sound fiscal management allowed Alberta to enter 1986-87 with a strong financial position. This enabled the government to pursue a highly expansionary fiscal strategy which is helping Albertans adjust to the new realities of the world marketplace. Although this was appropriate in the short term, we cannot possibly sustain such high deficits.

#### **1986-87 Deficit**

I forecast the 1986-87 combined deficit of the General Revenue Fund and the heritage fund at \$3.3 billion. At almost \$1,400 per capita, this is the highest annual deficit in Canada.

Even though we had to approve additional spending authorizations during 1986-87 to meet the rising demands for social programs, growth in combined spending was held to less than 2 percent. I can also report that our spending for '86-87 will come in well under the target set in last year's budget. The expenditure freeze we announced last November played a major role in keeping our spending under control. Combined revenue, however, was down over 29 percent compared to 1985-86. This dramatic decline was largely the result of a 64 percent drop in resource revenue.

With the backing of the heritage fund, we were able to access capital markets as preferred borrowers, obtaining very competitive rates.

In April 1986 we reinstated a weekly auction of treasury bills in Canada. From June 1986 to November 1986 the province issued \$700 million in bonds in the Canadian market. Late in 1986 Alberta launched two highly successful issues in the Euromarket: \$500 million U.S. of seven-year floating rate notes and \$750 million U.S. of five-year fixed rate notes. On a continuing basis during the year, promissory notes issued in Canada were used for interim financing and cash management purposes. A U.S. commercial paper program was also started in the last quarter of 1986-87.

#### **Trends in Alberta's Finances**

Despite this government's restraint efforts, spending remains too high relative to our revenue base.

Alberta's per capita expenditure base is approximately one-third above the national average. During the period 1980-81 to 1986-87, combined expenditure grew at an average annual rate of nearly 11 percent, led by spending on social programs. By comparison, combined revenue actually decreased over this period. Even if we consider only the high oil price years from 1980-82 to 1985-86, revenue grew by less than 4 percent. This was due to reductions in net royalty rates and the shift in production away from old oil, which is subject to higher royalty rates.

#### **Fiscal Strategy for Deficit Reduction**

We must take action now to realign the government finances. Deficits in the order of \$3 billion cannot be allowed to continue. If not checked, Alberta would find itself in a chronic deficit position with more and more tax dollars diverted from services for Albertans to paying interest on debt. We would be passing to our children and grandchildren the responsibility of paying the bills for the services we enjoy today.

The principles underlying our strategy are financial responsibility, fairness, and caring for those in need. We will ensure

that our deficit reduction actions will be fair and that those Albertans in need will be protected.

Mr. Speaker, our fiscal strategy is to reduce our deficit sharply in '87-88 and to balance the budget by 1990-91. We must begin deficit reduction this year in order to prevent an explosion in the size of our provincial debt. Failing to act decisively now could result in a crisis of major proportions. We simply cannot afford the risks of planning on the basis of an early and dramatic rebound in oil prices. A key guideline of our plan is to maintain debt servicing costs below 10 percent of revenue.

We will make a three-pronged attack on the deficit. First, we will suspend the resource revenue transfer to the heritage fund. Second, we will downsize our expenditure base, ensuring more government efficiency, so that by 1990-91 our spending is not significantly greater on average than that of other provinces. And thirdly, we will increase taxes substantially at the outset of this deficit reduction plan.

### **Heritage Fund Policy**

The heritage fund is a key component of the government's fiscal strategy. We intend to continue to use it wisely for the benefit of all Albertans.

Our plan calls for the suspension of the 15 percent transfer of resource revenue to the heritage fund until our financial objectives are met. We will still maintain our commitments under the capital projects division for such projects as irrigation in southern Alberta, private telephone lines for rural Albertans, parks, land reclamation, grazing reserves, health facilities, and a variety of research endeavours. This will be accomplished by using a small portion of the existing financial assets of the heritage fund.

The heritage fund, although capped, will continue to work for Albertans. The investment income continues to be used to support people programs, and the asset base makes it possible for Albertans to borrow at attractive rates. Some have expressed the view that we should spend part of the heritage fund to reduce the deficit. The fallacy in this argument is that by spending the fund, the investment income available would be reduced accordingly so that Alberta would be no better off. Meaningful reductions in the deficit must come from revenue and expenditure adjustments.

### **Expenditure Plan**

Consistent with our multiyear plan to reduce the government's annual deficit from \$3.3 billion to zero by 1990-91, combined program spending of the General Revenue Fund and the heritage fund will be held at \$10.2 billion in 1987-88.

I am recommending an expenditure plan which represents a decrease of 6.3 percent in combined program spending compared to the '86-87 estimate. This degree of expenditure reduction by a government is unparalleled in Canada.

Including the \$400 million required in '87-88 to service provincial debt, combined government expenditures in '87-88 will be under \$10.6 billion, a decrease of 4.4 percent from the comparable '86-87 figure.

This expenditure plan represents a savings of over \$1 billion compared to what program spending would have been assuming no policy changes and allowing for inflation.

Expenditure priorities have been established using two guidelines. The first guideline is fairness; the second is that our

expenditure reductions should have the least possible adverse effect on Albertans. A careful review of government programs was undertaken. To meet our medium-term fiscal plan, even more work will be required on detailed program evaluation.

The funding priorities we selected for 1987-88 are employment, education and health, and help for the disadvantaged and those in need. As well, this budget includes continued major funding for agriculture and support for selected economic diversification initiatives.

In recognition of our priorities the reduction in basic operating grants to educational institutions, active treatment hospitals, and municipalities will be limited to only 3 percent as announced in January. By comparison, government program expenditure in areas other than social services, education, and health will decline on average by 16 percent to meet our expenditure plan.

Operating grants to educational institutions, active treatment hospitals, and municipalities account for about 40 percent of the province's operating expenditure and, therefore, cannot be left untouched if we are to be successful in reducing the deficit. It should be remembered that these major grant recipients received a 4 percent basic grant increase in '86-87. The fact is our education, health, social services, and municipal systems have been well funded by this provincial government. By comparison to other provinces our spending on health, education, and social services has consistently ranked at or near the top. Now, when times are tough, Mr. Speaker, we are asking all Albertans to accept their share of the necessary adjustments.

### **More Efficient Government**

We are committed to trimming government overhead to reduce costs. Last November we announced a hiring and discretionary expenditure freeze on government operations for the remainder of the fiscal year. I am pleased to report that we expect to achieve our savings target of \$180 million.

The budget for '87-88 reflects our ongoing commitment to a smaller, more efficient government. Departmental full-time equivalent employment will be reduced by almost 6 percent in 1987-88. Layoffs will be few due to attrition and the government's three-part employee flexibility assistance program, which includes an early retirement incentive.

As part of our drive to reduce government overhead, I am announcing that the overall government budget for travel and hosting in 1987-88 will be reduced by 17 percent from the 1986-87 budgeted levels.

### **Employment Support**

This government is deeply concerned about the level of unemployment in the province. We understand the sense of frustration and the hardship that unemployment brings.

Over the next few years the expected recovery of our energy and agriculture sectors and the continuing success of our economic diversification efforts will create long-term jobs for Albertans. Assistance is also needed now. We will continue our priority commitment to job creation and training through the new labour market strategy, which was announced in the Speech from the Throne. I am pleased to announce that \$143.5 million will be provided in '87-88 for this initiative.

The main objective of the labour market strategy in '87-88 will be job creation and retention through wage subsidy programs. By reducing labour costs, these programs encourage

businesses, especially small Alberta firms, to expand and create jobs for Albertans. Assistance will also be provided to municipalities and nonprofit organizations for job-creation programs. Special emphasis will be placed on the employment of social assistance recipients and those who have exhausted their eligibility for unemployment insurance. These initiatives will receive a budget of \$76 million. This is an increase of 52 percent over last year's budget. In addition, youth employment will receive continued emphasis with a further \$40 million provided for the youth employment and training program and the summer temporary employment program.

The longer term objective of the labour market strategy is to support the private sector in providing training programs which anticipate changes in Alberta's economy. The availability of workers with the appropriate skills is critical to expanding our high-technology industries.

The Alberta municipal partnership in local employment program, which was announced in 1986, will provide \$22.5 million to local governments in 1987-88.

Our capital program will help to create and sustain jobs for Albertans. In deciding our capital budget, we gave careful attention to maintaining regional balance. Departmental capital spending through the General Revenue Fund and Capital Fund will total \$1.5 billion. In addition, heritage fund capital projects are estimated at \$140 million, and Crown corporations will support approximately \$750 million in capital activity. In total, the government's capital activity plan will reach approximately \$2.4 billion.

### **Quality Education and Health Services**

This government has always assigned a high priority to education. We recognize that education represents an investment in our people and in the province's social and economic future.

This afternoon I am pleased to announce a new Alberta school board partnership in local employment program. The program will pass on to school boards, over the next eight years, \$9.5 million in interest cost savings from the refinancing of the unsupported portion of school capital construction debentures. This program is the same in concept as the Alberta municipal partnership in local employment program.

Further demonstrating our commitment to quality education, selective spending increases are planned for '87-88. Notwithstanding the reduction in grant rates as previously announced, increased costs of almost \$33 million associated with higher enrollments, debt retirement, and teachers' pensions will be accommodated. Funding to cushion those school jurisdictions with low fiscal capacities from the effect of budget reductions will be increased by nearly 12 percent to \$54.5 million. As well, special funding of \$2.6 million will be reallocated to various school jurisdictions to reflect the distribution of severely handicapped students.

Nearly \$11 million in additional support will be provided to postsecondary institutions in recognition of new programs and the operating costs of new facilities. Alberta's student financial assistance will remain the best in Canada.

Spending on education is budgeted at \$2.4 billion, Mr. Speaker. This amount will constitute over 23 percent of budgetary expenditures, up from last year's comparable share. As well, the province will provide \$45 million through the Capital Fund for construction of postsecondary education facilities. In the period 1980-81 to 1986-87 spending on education has

increased on average by 12 percent per year. Alberta will continue to be among the leaders in providing quality education programs. On a per capita basis, Mr. Speaker, our total education spending is the highest in Canada.

Albertans benefit from health care services and facilities that are second to none. I can report that our total financial support for hospitals and nursing homes is budgeted to increase slightly in 1987-88. As previously announced, the Grey Nuns hospital in Edmonton is scheduled to open in April 1988, just a few months later than originally planned. I can now confirm that the Peter Lougheed hospital in Calgary is scheduled to open at the same time.

This government continues to be concerned about rapid increases in the utilization of health care services. Effective July 1, health care premiums will rise to \$18 a month for single individuals and to \$36 a month for families. The health care premium subsidy program will be enriched and modified so that low-income earners are protected from the increase. Even with the increase, Mr. Speaker, only about 40 percent of the cost of medical services, excluding costs incurred for seniors, will be met through premiums.

Our budget for health is \$2.6 billion. This represents 25 percent of our budgetary expenditure, a larger share than last year's comparable figure. In addition, \$235 million will be provided through the Capital Fund and \$14 million from the heritage fund.

### **Help for Those in Need**

This government will maintain its major commitment to those less fortunate Albertans who require special assistance.

We recognize that not all Albertans have been able to maintain their employment or to find new jobs during the province's recent economic difficulties. The social safety net will be maintained. Overall funding for the social allowance program will increase by \$175 million to \$638 million in 1987-88. This major increase will look after an increased number of individuals and families requiring short-term assistance. It will also provide for specific benefit rate increases, particularly for single-parent families. Other benefit rates are also being adjusted, including selective reductions for the single employable group. More staff are being added to ensure that those requiring assistance can be helped as quickly as possible.

Funding for the assured income for the severely handicapped program will be increased by 20 percent in 1987-88 to \$126 million. We will provide income support for an additional 2,300 severely handicapped Albertans in the coming year. Benefit rates will be maintained at current levels.

Funding for handicapped children services will increase by 10 percent to \$4.9 million. This level of support will ensure that parents caring for their handicapped children at home do not face financial hardship.

This government's commitment to handicapped persons, together with personal leadership initiatives such as Rick Hansen's inspirational Man in Motion World Tour, will help an ever-increasing number of our handicapped citizens to strive for and achieve their full potential.

The Alberta maintenance enforcement program, which was started last year, has proven to be a major success. It will receive \$2.7 million in funding to continue with services.

The community housing program, which assists low-income families, senior citizens, and handicapped Albertans, will be increased by nearly 20 percent to over \$21 million.

## Senior Citizens

Alberta's programs for senior citizens are unequalled in Canada. We will continue to maintain our benefit levels for the Alberta assured income plan for senior citizens and for widows' allowance. In addition, renter assistance grants and property tax rebates will be maintained for our seniors.

Funding will be increased by 24 percent for dental and optical benefits and special medical equipment and supplies. These benefits for seniors, as well as basic health and Blue Cross coverage, will continue to be provided premium free.

Assistance to senior citizens' lodges will increase 12 percent to nearly \$23 million to ensure that adequate housing is provided for lower income seniors.

We will be expanding and improving programs and services for the elderly in nursing homes and auxiliary hospitals. We are also introducing a new program to assist private and voluntary nursing homes with capital improvements to bring older nursing homes up to today's standards.

## Agriculture

This government's commitment to agriculture is steadfast. Our government has a history of responding to the needs of the agricultural sector. When drought caused hardships for grain, livestock, and other producers, this government acted. Numerous special programs costing over \$120 million were implemented over the past two years.

Our government's primary commitment is to the long-term viability of Alberta's agricultural sector. This budget maintains the insurance and stabilization programs and continues others designed to reduce input costs.

This afternoon I am pleased to announce that farmers will continue to receive a 14-cent per litre advantage on the price of fuel. Ninety-seven million dollars has been budgeted for this program.

My colleague the Minister of Agriculture has already announced that the farm fertilizer price protection plan is extended to cover the 1987 crop. It is estimated that this program will reduce farmers' fertilizer costs by approximately \$22 million in 1987-88.

While changes in the crop insurance program are being considered, the special crop insurance coverage restoration program has been expanded for another year at an estimated cost of \$5 million. Similarly, the government has budgeted over \$5 million to maintain the insurance premium subsidy offered to producers in high-risk areas.

The cost of borrowing money is a significant input cost to Alberta farmers and ranchers. The innovative \$2 billion Alberta farm credit stability program ensures that Alberta producers benefit from long-term fixed rate interest costs. Approximately 13,000 farmers have received approval under this program, and a further 4,000 are expected to benefit. The statutory funding in '87-88 to cover the costs of the program is estimated at \$35 million.

This government continues to push for a change in the federal government's position regarding the payment of the Crow rate benefit. While we are increasing our efforts to have payments made directly to producers, the province's livestock feeders will receive funding from the Crow benefit offset program. Over \$47 million is provided in this budget to help neutralize the feed grain price distortion created by the existing federal policy.

To help protect Alberta's livestock producers from cyclical markets, this government promoted the implementation of a national tripartite stabilization program for red meat. Over \$15 million is budgeted in 1987-88 as the province's share of premium costs.

This budget includes funding for initial operation of the agricultural research institute. The institute will bring the industry, academic institutions, and government together to co-ordinate research programs. This action will improve the effectiveness of our agricultural research spending and will help to maintain the competitiveness of Alberta producers and processors in the world market.

As evidence of this government's ongoing efforts to develop and expand markets for our agricultural products, we will develop a major market initiative to promote sale of Alberta beef in Japan. Marketing of our agricultural products remains an ongoing commitment.

This budget will provide nearly \$400 million in provincial support to Alberta farmers and ranchers in '87-88. In addition, the Heritage Savings Trust Fund continues to work to strengthen the agricultural sector. Seventy million dollars will be provided through the departments of Agriculture and Environment for irrigation programs, and \$3 million will be allocated for further development of grazing reserves. As well, the Farming for the Future research program will be extended at a cost of \$5 million. Over \$18 million will be provided through the heritage fund in support of our program to offer individual telephone service to rural Albertans. This program will enhance the quality of life of rural Alberta. Overall, nearly half a billion dollars will be targeted to agriculture.

## Economic Development

As part of our overall commitment to job creation this government will continue to encourage diversification of Alberta's economic base.

Small business plays a key role in the government's diversification strategy. They are the innovators and risk-takers. Through the highly successful small business term assistance plan, fixed interest, medium- to long-term loans totaling nearly \$1 billion are being made available. Approximately 11,000 small businesses have been approved. This program has generated employment and investment at a crucial time. In 1987-88 statutory funding of \$17 million is required to cover the costs of the program.

Other programs and benefits designed to support small business are the Alberta small business equity corporations program, the Alberta stock savings plan, preferential corporate income tax rates, the many programs and services offered by Economic Development and Trade, and the lending programs of the Alberta Opportunity Company.

The range of financing options that the Alberta Company offers will be broadened to assist Alberta's small business with the government's diversification efforts. The company will make available \$15 million of creative financing in '87-88. This will generally take the form of patient capital, which allows for a payment structure more suited to the cash flows of a developing business. This initiative is primarily aimed at assisting small businesses engaged in tourism, manufacturing, and high technology.

A special allocation of \$3 million will be created for the development of initiatives in the tourism, agriculture, advanced technology, manufacturing, and forestry sectors. This funding is

in addition to the millions of dollars budgeted directly by departments to support the province's economic development and diversification strategy.

Under the heritage fund's Alberta investment division, approximately \$90 million will be advanced in 1987-88. This is part of the government's \$120 million loan commitment to help finance the development of a pulp mill in Whitecourt.

### **Expenditure Plan in Summary**

In summary, Mr. Speaker, the 1987-88 expenditure plan will assist employment, maintain quality people services, and protect those in need while significantly reducing our annual deficit. This is possible through greater reductions in other expenditure areas. Even though combined program spending is budgeted to decline by 6.3 percent, debt servicing costs are budgeted to double to \$400 million. In total, combined expenditure is targeted to be reduced by 4.4 percent from the 1986-87 estimate.

### **Taxation and Fee Changes**

This year's budget will require adjustments not only to expenditures but also to revenue. Our objective is to provide a balance between expenditure reduction and taxation increases. Over the last several years Albertans have enjoyed by far the lowest overall tax rate of any province. This was made possible by our resource revenue, which in the early 1980s was the equivalent of an 18 percent retail sales tax. In 1986-87 with the fall in oil prices our resource revenue was only the equivalent of a 6 percent sales tax. We are now in a situation where our current revenue sources and tax rates are not generating enough revenue to fund even our reduced expenditure base. In this budget, Mr. Speaker, I am asking Albertans to pay more through taxes so that we can maintain the quality of our programs.

In considering tax increases, we were concerned with the implications for the economy and the impact on low-income Albertans. Three benchmarks were adopted. First, Alberta's tax load should remain the lowest of any province; second, the burden of tax increases should be shared between businesses and individuals; and third, low-income groups should be protected.

For more than a decade Alberta has had the lowest personal income tax rate of all the provinces. Given this available tax room, we will increase the rate by three points to 46.5 percent of basic federal tax effective the 1987 taxation year. This will remain the lowest basic tax rate of any province. As well, we are introducing a temporary high-income surtax of 8 percent to ensure that Albertans with the ability to pay will make a relatively greater contribution. A temporary flat rate tax of 1 percent of taxable income will also be introduced. To cushion low-income Albertans, the selective tax reduction will be enriched, benefiting nearly one-half million Albertans at a cost of \$72 million. I estimate, Mr. Speaker, that the combination of these personal tax measures will provide \$376 million in additional revenue in '87-88.

The renter assistance credit will be discontinued beginning with the 1987 taxation year. The low vacancy rates and high rents which prevailed when this credit was introduced years ago no longer exist. This measure will add \$90 million to revenue but not until 1988-89. Albertans will still be able to claim the credit for rent paid in 1986 when filing their 1986 tax return. The senior citizens renter assistance grant of \$1,200 will not be affected.

Tobacco taxes will be increased to four cents per cigarette or \$1 per pack of 25 cigarettes effective midnight tonight. This will put Alberta's rate close to the national average and will add an estimated \$115 million in revenue. As well, Alberta Liquor Control Board mark-ups will be increased to generate an additional \$40 million.

Effective May 1, the registration fee for a passenger vehicle will be raised to \$41 a year and by varying amounts for other vehicles. Renewal fees for operators' licences will be increased to \$30 per five-year period. Other miscellaneous fees for government services will be increased to recover a greater portion of the cost of providing the services. In total, I estimate these fee increases will provide in the order of \$51 million.

We will be introducing, effective June 1, a new hotel room tax of 5 percent. It will raise an estimated \$9 million. All other provinces except Quebec tax temporary accommodation and at higher rates.

A fuel tax of five cents per litre on gasoline and diesel fuel used in motor vehicles will be introduced effective June 1. The rate is the lowest among the provinces except Saskatchewan. Farmers will be exempt from this tax. The tax on fuel used in locomotives and large aircraft will be increased to five cents per litre and extended to small aircraft. These measures will add \$230 million in revenue.

Businesses are asked to accept their share of the fiscal adjustment. Like individuals, corporations will pay the fuel tax, increased vehicle registration fees, the new hotel room tax, and the employer portion of health care premiums. As well, I am announcing that the income tax rate on large corporations will increase by more than one-third to 15 percent effective April 1, 1987. On an overall basis Alberta will still have the lowest corporate tax rate in Canada. I expect this measure to contribute an additional \$117 million to the revenue in '87-88.

The small business income tax rate will not be increased. As in the past the rate will be 5 percent for small business and zero on their income from manufacturing and processing.

The insurance corporations tax rate will be raised by one-half to 3 percent of premium revenue from policies other than life, sickness, or accident insurance. This measure brings Alberta in line with other provinces and is expected to increase revenues by \$10 million.

These measures will add nearly \$1 billion to provincial revenue. However, Mr. Speaker, Alberta will continue to have no sales tax, no payroll tax, and no capital tax. Albertans on average will continue to pay lower provincial taxes than other Canadians.

### **Revenue Outlook**

Including the tax measures just described, total tax revenue is estimated at \$3.3 billion. This represents an increase of 37 percent over the 1986-87 forecast.

Combined nonrenewable resource revenue is estimated at \$1.7 billion, which is 11 percent above the forecast for '86-87. Underlying the royalty estimate is an average oil price assumption of \$17 U.S. per barrel.

Payments to Alberta from the government of Canada are expected to be up 15 percent. The increase reflects in part a claim we will be pursuing with the federal government under the stabilization provisions of the fiscal arrangements Act in respect of the large drop in revenue in '86-87.

Heritage fund investment income is projected at \$1.3 billion, which is 10 percent below the 1986-87 forecast. The decline is



due in part to lower interest rates. Nonetheless, heritage fund investment income will provide 15 percent of total combined revenue.

Overall, I estimate '87-88 combined revenue to be \$8.6 billion, an increase of 15 percent. Resource revenue is expected to account for 20 percent of the total revenue and taxation 39 percent. This is virtually the reverse of the situation of only a few years ago.

### **Financial Plan**

Based on the revenue projections I have just reviewed and the expenditure plan that I have outlined earlier, the combined General Revenue Fund and heritage fund deficit is estimated at \$1.9 billion in '87-88. This represents a decrease of over 40 percent from the 1986-87 forecast.

The General Revenue Fund, the main operating account of the province, is estimated to have a deficit of \$1.8 billion in '87-88, down sharply from the '86-87 forecast of \$3.3 billion. A major factor in the improvement is the suspension of the heritage fund transfer, which adds \$262 million to budgetary revenue in '87-88.

### **Provincial Borrowing**

The net cash requirements for the General Revenue Fund and the Capital Fund are estimated to total \$2.1 billion during 1987-88, down 44 percent from 1986-87.

### **Conclusion**

Mr. Speaker, this afternoon I have outlined for this Legislative Assembly and for Alberta a fiscal plan which will set us on a new course towards the opportunities ahead. Alberta faces many new challenges, and we must all rise to the occasion. We must discard many of the solutions from the past and think anew and act anew. We must be determined in our resolve to eliminate the deficit in an orderly way over the next four years. This budget will turn the corner on the deficit. Fiscal responsibility means making tough choices, and this government is prepared to act.

Yet all Albertans can be proud of the programs provided in this budget. We have continued our commitment to job creation, education, health, help for those in need, and agriculture. Our overall expenditure plan for '87-88 will provide Albertans with the most comprehensive services available in Canada at levels of funding still among the highest of any province.

Exciting opportunities lie ahead. Alberta has a strong resource base that will provide a foundation for future growth. Our private sector, working with government, is diversifying the Alberta economy. We are fortunate indeed to have a well-trained and talented population to complement our strength in natural resources.

It is now time, Mr. Speaker, for all Albertans to remember the spirit on which our province was built and to join together with new ideas and a renewed determination to build a better future for us all.

MS BARRETT: Sorry for the delay here. I beg leave to adjourn debate, please.

MR. SPEAKER: The hon. Member for Edmonton Highlands

has begged leave to adjourn debate. All those in favour, please say aye.

HON. MEMBERS: Aye.

MR. SPEAKER: Opposed, please say no. Motion carries.

MR. RUSSELL: Mr. Speaker, I request unanimous consent of the House to revert to Introduction of Bills.

HON. MEMBERS: Agreed.

MR. SPEAKER: Opposed? So ordered.

head: **INTRODUCTION OF BILLS**

### **Bill 24**

#### **Appropriation (Interim Supply) Act, 1987**

MR. JOHNSTON: Mr. Speaker, I request leave to introduce Bill 24, Appropriation (Interim Supply) Act, 1987. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 24 read a first time]

### **Bill 25**

#### **Appropriation (Alberta Capital Fund) Interim Supply Act, 1987**

MR. JOHNSTON: Mr. Speaker, I beg leave to introduce Bill 25, Appropriation (Alberta Capital Fund) Interim Supply Act, 1987. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 25 read a first time]

### **Bill 26**

#### **Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Interim Supply Act, 1987-88**

MR. JOHNSTON: Mr. Speaker, I request leave to introduce Bill 26, Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Interim Supply Act, 1987-88. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 26 read a first time]

MR. CRAWFORD: Mr. Speaker, the business on Monday will be the continuation of the budget debate in the afternoon and the Committee of Supply in the evening.

[At 4:06 p.m. the House adjourned to Monday at 2:30 p.m.]

