

Phase III report

# VISION 20|20

## Saving for the future Alberta Advantage

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## What is Vision 2020?

- Provides insight on how demographic changes will affect Alberta's economic, social and policy landscape
- Partnership between Alberta Chambers of Commerce (ACC) and Certified General Accountants of Alberta (CGA-Alberta)

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## What is Vision 2020? (cont.)

Released Sept. 2004      Released Sept. 2005

•Phase I: Demographic model

•Phase II: First policy specific research

•Phase III: Building on phase I

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## Why look at savings now?

- Alberta's wealth has been a point of discussion nationally since its debt-free status was announced
- Going further on recommendations from the phase I report
- 30<sup>TH</sup> anniversary of the Alberta Heritage Savings Trust Fund (AHSTF) – on May 19, 1976 received Royal Assent

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## Setting the context

### Total budgetary balance with half of resource revenues

(\$ in 000,000)

Year	Budgetary Balance (\$ in 000,000)
1995	-1,000
1996	-500
1997	500
1998	1,000
1999	500
2000	1,300
2001	-1,400
2002	-500
2003	500
2004	1,000
2005	199
2006	0

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## Setting the context (cont.)

### Alberta - per capita program spending (1993-2005, in constant 2004 \$)

Year	Per Capita Program Spending (constant 2004 \$)
1993	7,469
1994	7,500
1995	7,000
1996	6,500
1997	6,000
1998	6,500
1999	7,000
2000	7,500
2001	8,000
2002	8,500
2003	8,000
2004	8,500
2005	7,798

## What were the findings?

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- Spending beyond inflation and population growth (1.7% between 1982 and 2001; 0.9% since 2001)
- Spending on programs 2<sup>ND</sup> highest per capita in 2004/05 at \$7,798
- No automatic discipline on government spending
- Until 2005/06, last transfer into the AHSTF occurred in 1986/87

## What were the findings? (cont.)

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- Since last deficit year (1994/95) the Province has collected \$76.7 billion in non-renewable resource revenue
- Since 1994/95, net \$7.8 billion has been transferred out of the AHSTF
- Under the *Fiscal Responsibility Act*, province can transfer up to \$4.75 billion annually in non-renewable resource revenues to the General Fund
- Alberta is heavily reliant on natural resource revenues

## Can Alberta afford to save?

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Surpluses to 2026

**General Revenue Fund Balance: Scenario 1**  
High pop growth / health care increase at 1.5% / average royalty revenue (3.7% of GDP) / surplus saved

(\$ in 000,000)

2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026

## Can Alberta afford to save?

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Deficits by 2013

**General Revenue Fund Balance: Scenario 2**  
High pop. Growth / high health care cost increase (2.2%) / low royalty revenue (2.8% of GDP)

(\$ in 000,000)

2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026

## Can Alberta afford to save?

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Initial surpluses, eventual deficits

**General Revenue Fund Balance: Scenario 3**  
High pop growth / health care increase of 1.5% / average royalty revenue (3.7% of GDP) / initial surpluses not saved

(\$ in 000,000)

2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026

## The answer is yes

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- 30 per cent of resource revenues annually is equal to just under \$1.9 billion
- 40 per cent is equal to just over \$2.5 billion

## Examining trust funds

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- A trust fund is essentially a contract governing future use of specified resources (Anderson)
- Three critical success factors of a trust fund:
  - Checks and balances
  - Transparency
  - Public involvement

## How do we compare?

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	Alberta Heritage Savings Trust Fund	Alaska Permanent Fund	Government Petroleum Fund (Norway)
Fund has constitutional status?	No	Yes	No
Legislative requirement for annual resource revenue deposits?	No	Yes (25 per cent)	Yes (100 per cent)
Year created/first year in which resource revenue deposited	1976/1976	1976/1977	1990/1996

## How do we compare? (cont.)

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	Alberta Heritage Savings Trust Fund	Alaska Permanent Fund	Government Petroleum Fund (Norway)
Total value (in \$CDN)	\$14.6 billion	\$37.5 billion (U.S. \$32.239 billion)	\$223 billion (NOK 1,281 billion)
Per capita (in \$CDN)	\$4,483	\$59,805	\$48,145
Inflation-proofing required?	Yes	Yes	No

## Recommendations

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- Alberta's annual per capita spending should not exceed population growth and inflation.
- The province should deposit between 30 per cent and 40 per cent of all non-renewable resource revenues in the Heritage Fund annually.

## Recommendations (cont.)

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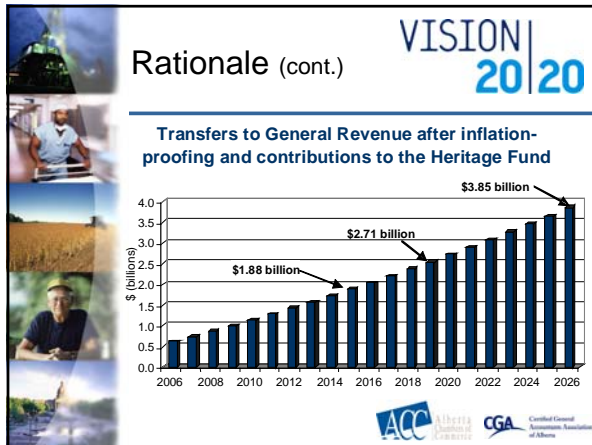
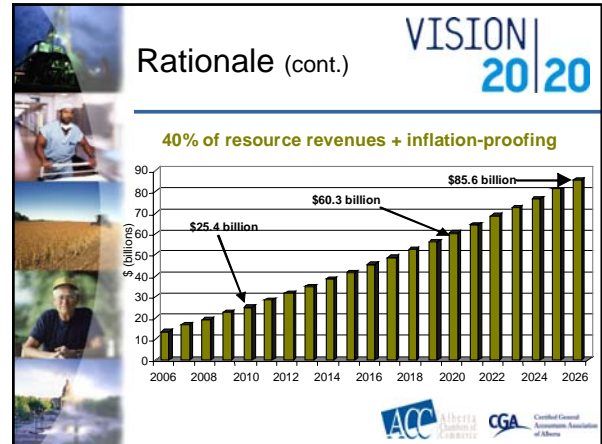
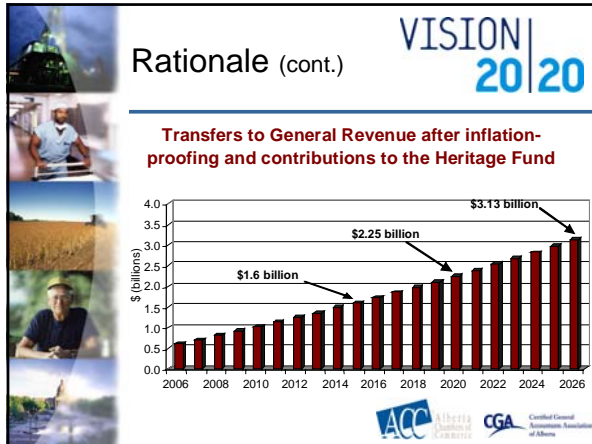
- The province should consider transfers of additional resource revenue into the Heritage Fund (beyond the recommended percentages) in the manner of the state of Alaska.
- The province should not issue dividend cheques in the short to medium-term. While the 2006 dividend cheques were popular, such payouts place the dividend "cart" before the principal "horse."

## Rationale

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30% of resource revenues + inflation-proofing

Year	Resource Revenue
2006	15
2007	18
2008	20
2009	22
2010	22.8
2011	25
2012	28
2013	30
2014	32
2015	35
2016	38
2017	42
2018	50
2019	55
2020	60
2021	65
2022	70
2023	75
2024	80
2025	85
2026	69.6



**Foreword from Peter Lougheed** **VISION 20|20**

“The Alberta Chambers of Commerce and Certified General Accountants Association of Alberta have made a very important contribution to the public debate as to Alberta’s choices and options in responding to increasing natural resources revenues from oil and natural gas.”

ACC Alberta Chambers of Commerce CGA Certified General Accountants, Association of Alberta

**More information** **VISION 20|20**

[www.albertavision2020.ca](http://www.albertavision2020.ca)

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