S&P hits Alberta with another credit downgrade

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CALGARY Alberta has received another credit downgrade, with a rating agency warning about "continuing budgetary performance deterioration and growing debt" under the NDP government.

S&P Global Ratings announced Friday it was lowering Alberta's rating two notches, from AA to A+.

"The province's budgetary performance ... has significantly deteriorated and is materially weaker compared with that of both domestic and international peers," the agency said in a news release.

"In addition, we expect that for Alberta to fund its growing capital expenditure program, its debt burden will continue to grow rapidly."

S&P, DBRS Limited and Moody's Investors Service have all previously lowered Alberta's credit rating — which raises the cost of borrowing by the government — as the Notley government posted red ink in the midst of an economic downturn spurred by low oil prices.

Alberta's provincial budget, released in March, projects a $10.3-billion deficit for 2017-18. With government pumping up borrowing to pay both for operations and for a massive public infrastructure agenda, it is forecasting debt to hit $71.1 billion by 2019-20.

In its news release, S&P said that it expects the provincial debt to reach about $94 billion by the end of the 2020 fiscal year.

The agency said its outlook for the province is "stable" and does not expect to downgrade Alberta further in the next two years, but it could happen if the province depletes its liquidity. Conversely, the province could get an upgrade if rising energy prices boost the economy and tax revenue, or the government "successfully took measures to notably improve its budgetary performance."

"Although it possesses strong tax advantages, compared with other Canadian provinces, that could be tapped, we believe it has yet to use these in a significant way to improve its fiscal position."

The NDP government has vowed to maintain public services without significant spending cuts, forecasting a return to balanced budgets in 2023-24 based on long-term restraint and rebounding economic growth.

Finance Minister Joe Ceci met with rating agencies earlier this month, telling reporters the government did not plan to change course, despite the possibility of another downgrade.

He echoed that stance in a statement released by the government Friday.

"Our government had a choice. Had we made deep cuts that might have satisfied some bond raters, it would have resulted in a much deeper and longer recession," said the minister.

"We will not raise taxes or make reckless spending cuts in the billions of dollars when our economy is just beginning to recover."

Ceci, who was not made available to comment, said Alberta is projected to see 2.6 per cent growth in 2017.

"I believe this rating change overlooks many of the positive things happening in our province right now," he said, adding that Moody's had affirmed its existing rating for Alberta.

The Moody's report from May 2017, while not changing the rating, gave a "negative" outlook to Alberta, "reflecting the risk to economic and fiscal recovery given larger ongoing deficits, increasing debt burden and uncertainty around the recovery in oil prices and production."

In April 2016, DBRS downgraded Alberta's top-grade rating, as did Moody's Investor Service, due to concerns about debt in that year's budget. The following month, S&P changed the province's rating from AA-plus to AA. It had already taken away Alberta's AAA rating in December 2015.

Progressive Conservative caucus leader Ric McIver said Ceci and Premier Rachel Notley are oblivious to the fact they are turning Alberta's finances into a "train wreck."

"It's going to be more expensive to provide services or there will be less of everything, including teachers, doctors, roads, schools, hospitals, all the things Albertans care about," said McIver.

In news releases, Wildrose said the situation was due to the government's "budget disaster," while the Alberta Party chalked it up to "poor choices" by the NDP.

University of Calgary economics professor Trevor Tombe said there are additional costs that come with a downgrade, but they are not as great as some might expect.

He said the greater concern should be the structural problems with Alberta's finances highlighted by S&P, including continuing over-reliance on energy revenues.

Alberta needs to both restrain spending and find new sources of revenue, preferably through measures such as a sales tax — Alberta's the only province without one — to return to balanced budgets, said Tombe.

The government could also choose to put carbon tax revenue toward reducing the deficit, rather than spending it on green programs, he noted.

"The challenge here is politics," said Tombe.

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