



BUSINESS COUNCIL OF ALBERTA

August 6, 2019

Honourable Travis Toews
President, Treasury Board and Minister of Finance

And

Honourable Tanya Fir
Minister of Economic Development, Trade and Tourism
Government of Alberta
Legislative Assembly of Alberta
10800 97 Avenue NW
Edmonton, Alberta T5K 2B6

Dear Ministers Toews and Fir,

The Alberta Investor Tax Credit (AITC) is an important investment attraction and economic development tool. It supports new private investment into Alberta and in companies that have high potential to create new jobs and drive economic activity and diversification. We understand that as a result of the work being done by the Government of Alberta's Blue Ribbon Panel (Panel) on Alberta's Finances, and in preparation for a fall budget, the AITC program has been suspended while it still has \$6 million remaining to be allocated. We, the Business Council of Alberta (BCA), in addition to many Alberta entrepreneurs and investors whom we write on behalf of, believe that the AITC is an effective and investment attraction tool, and request that the Government of Alberta:

1. Reinstate the AITC using the remaining funds until such time as the Panel's work can be completed and the budget is tabled in the fall; and,
2. Engage with the Business Council of Alberta and other leaders in the technology and innovation ecosystem to develop solutions that will "reform innovation ecosystem funding" as per the government platform to ensure that Alberta has a suitably attractive and effective technology investment vehicle that will drive jobs and growth.

The basis for this request is that the investments being made via the AITC into Alberta-based technology companies are creating significant benefit for the provincial economy using an efficient leverage model that yields outcomes far greater than the government investment. The AITC is a highly effective model that creates incentives for increased investment activity into the province using a reduced revenue stream (i.e., tax revenue) rather than an expense-based grant model. This is exactly the kind of investment incentive and tool that the Government of Alberta should be exploring and pursuing more of.



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The funds invested via the AITC are not only helping create technology and innovation companies, but some of those companies are building technologies that are making our traditional sectors such as oil and gas, agriculture and transportation more competitive and successful. In other words, the AITC is playing a role in attracting investment, getting the economy back on its feet and enabling existing Alberta companies to find ways to thrive.

The AITC is contributing to a number of government priorities, specifically getting Albertans back to work and increasing investment into Alberta. Permit us to elaborate on each.

Jobs

More Albertans are getting back to work as a result of the company creation happening via the AITC. Of the 1,238 tech start-up companies in Alberta, 60% of these companies have five or more employees, and that number is up 18% over the past two years. Anecdotally, this includes many who have made career transitions as a result of a layoff or the downturn. Additionally, as Alberta continues to attract talented foreign students and workers, many are finding their way into technology and innovation driven companies, working to help grow local companies or starting ones of their own. Suspending, or eliminating, the AITC will result in fewer Albertans employed.

Investment Attraction

In terms of attracting investment, the AITC has enabled 150 companies across 15 or more Alberta communities to leverage \$50 million of government funds into \$166 million of total investment into Alberta through 1,850 investors and seven venture capital corporations—more than a **3:1 investment leverage ratio** in a short period of time. While this may be small in comparison to the volumes of investment in sectors like oil and gas, the AITC has been a bright light of continued investment and job creation into the province, especially at a time when much of the investment into these sectors has become almost non-existent. In addition, as investments made under AITC bear fruit, the exposure of these investors to other investment opportunities in Alberta will grow, with a high likelihood they will increase their investment levels in the province over time.

The AITC is in its infancy, and is modelled closely after British Columbia's program which has been running for many years and delivered consistent and compelling success. B.C. has been able to study the long-term results and found over a seven-year period:

- For every \$1 of provincial tax credit issued, the resulting companies generated **\$1.98 in provincial taxes**
- The program generated a **9:1 investment leverage**: tax credits of \$256 million were leveraged into at least \$2.3 billion of equity
- Over **4,000 jobs** were created

It is likely that similar results could be expected in Alberta as a result of the AITC over time.



Getting the Economy Back on Its Feet

In addition to the investment leverage and job creation that the AITC enables, it is also driving benefit to Alberta's existing sectors, enabling a faster and more resilient economic recovery. Alberta success stories like the companies Symend in telecommunications and Veerum in energy and mining are great examples of this. Symend was able to leverage an early capital raise through the AITC to quickly become a market leader and now has 90% of the major Canadian telco companies working with them. Enabled by the AITC, Veerum, is making the resources and energy sector more competitive. Their core customers include several of the country's top 10 energy companies and top 3 mining companies, who use Veerum's technology on major projects to improve efficiency and competitiveness.

The AITC is a highly attractive tool for investors in that it reduces the risk of investing in early stage, higher risk companies. In considering where to invest, experienced investors who look to diversify their investment portfolio will weigh options in terms of the risk/return of their investments. A tax credit, such as AITC, creates an opportunity to reduce any loss that may be incurred due to an early-stage investment that does not payoff, for it enables a portion of the investment to be offset against earned income. Compared to an investment location that does not offer a tax credit, this is extremely compelling as an investment attraction tool for it serves to reduce some of the potential downside of investment losses. Without the AITC, investors may pass on investment into Alberta.

While we applaud the review of all the province's finances and related expenditure programs, our concern is that a continued suspension of the AITC program will negatively impact Alberta's current and future opportunities to attract investment that could benefit not only the growing technology sector but also be highly beneficial to our traditional sectors such as energy and agriculture. We are aware of multiple investors who are currently reconsidering Alberta in light of this suspension, and companies whose growth and job creation plans have stalled. We don't want the province's economic recovery to lose momentum.

We recognize that the current AITC program is not perfect. It needs to be evaluated against the attractiveness of the competitive business climate that the Government of Alberta is on track to create and in comparison, with overall technology and innovation investment climates in other comparable jurisdictions. This important work will need to be done to satisfy the government priority of reforming the innovation ecosystem funding approach. With numerous BCA members who are investors through the AITC, experienced venture capitalists, seasoned energy investors and successful entrepreneurs, we have many suggestions for improvement that could be brought to bear on helping improve the innovation ecosystem funding approach and effectively creating incentives that create investment leverage and do not require expenditure from government.

Despite its imperfections, the AITC is a highly effective and important investment attraction tool and an example of a mechanism that Alberta requires in order to be competitive and get its economy back on its feet.



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In closing, we request that the Government of Alberta:

1. Reinststate the AITC using the remaining funds until such time as the Panel's work can be completed and the budget is tabled in the fall; and,
2. Engage with the Business Council of Alberta and other leaders in the technology and innovation ecosystem to develop solutions that will "reform innovation ecosystem funding" as per the government platform to ensure that Alberta has a suitably attractive and effective technology investment vehicle that will drive jobs and growth.

We thank you for your time and consideration to this matter. We would be pleased to discuss this with you further.

Yours truly,

A handwritten signature in black ink, appearing to read "Adam Legge".

Adam Legge
President

CC: Honourable Jason Kenney, Premier of Alberta
Ray Gilmour, Deputy Minister, Executive Council
David Knight Legg, Principal Advisor, Office of the Premier