Legislative Assembly of Alberta

The 27th Legislature
Third Session

Standing Committee on the Economy

Department of Finance and Enterprise
Consideration of Main Estimates

Wednesday, February 24, 2010
6:30 p.m.

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Standing Committee on the Economy

Bhardwaj, Naresh, Edmonton-Ellerslie (PC), Chair
Taylor, Dave, Calgary-Currie (AL), Deputy Chair

Allred, Ken, St. Albert (PC)
Amery, Moe, Calgary-East (PC)
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Lund, Ty, Rocky Mountain House (PC)
Marz, Richard, Olds-Didsbury-Three Hills (PC)
Taft, Dr. Kevin, Edmonton-Riverview (AL)
Weadick, Greg, Lethbridge-West (PC)
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* substitution for Greg Weadick

Also in Attendance

MacDonald, Hugh, Edmonton-Gold Bar (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)

Department of Finance and Enterprise Participant

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6:30 p.m. **Wednesday, February 24, 2010**

[Mr. Bhardwaj in the chair]

Department of Finance and Enterprise
Consideration of Main Estimates

The Chair: Good evening, ladies and gentlemen. I would like to call the meeting to order. I would just like to remind all members that you don't need to touch the microphones. Our very able *Hansard* staff will operate them. Tonight, just for note, the committee has under consideration the estimates of the Department of Finance and Enterprise for the fiscal year ending March 31, 2011.

With that, I'm going to go around for introductions, starting with the minister. Dr. Morton, please do introduce yourself and your staff as well.

Dr. Morton: Thank you, Chair. I'm happy to be here this evening, and I'd like to introduce and thank those who are with me. I have Stephen LeClair, my assistant deputy minister, budget and fiscal planning, on my right side. I have Darwin Bozek, assistant deputy minister, strategic and business services and senior financial officer for the ministry, on my left side. Also with me from the ministry, behind me, are Rod Matheson, assistant deputy minister, treasury and risk management, who is the acting deputy minister this evening for Tim Wiles, who is not able to be here; Rick Sloan, assistant deputy minister, enterprise; Dennis Gartner, assistant deputy minister, financial sector; Jane Clerk, assistant deputy minister, tax and revenue administration; Richard Isaak, executive director, financial services; Frank Potter, director, financial planning and budgets; and Craig Johnson, budget officer.

Thank you, Chair.

The Chair: Thank you very much.

We'll go over to Paul. Mr. Hinman.

Mr. Hinman: Paul Hinman, Calgary-Glenmore.

Mr. MacDonald: Hugh MacDonald, Edmonton-Gold Bar. Good evening.

Mr. Allred: Ken Allred, St. Albert.

Ms Woo-Paw: Teresa Woo-Paw, Calgary-Mackay.

Mr. Lund: Ty Lund, Rocky Mountain House.

Mrs. Kamuchik: Louise Kamuchik, Clerk's office.

Mr. Amery: Moe Amery, Calgary-East.

Mr. Marz: Richard Marz, Olds-Didsbury-Three Hills.

Mr. Taylor: Dave Taylor, Calgary-Currie.

The Chair: And my name is Naresh Bhardwaj, MLA, Edmonton-Ellerslie.

I've got a few things we need to read on the record. Pursuant to Standing Order 56(2.1) through to 56(2.4) Mr. Berger is attending the meeting as an official substitute for Mr. Weadick.

Some procedural items, speaking order, and times. Standing Order 59.01(4) prescribes the sequence as follows:

> (a) The Minister, or the member of the Executive Council acting on the Minister's behalf, may make opening comments not to exceed 10 minutes,
> (b) for the hour that follows, members of the Official Opposition and the Minister . . . may speak,
> (c) for the next 20 minutes, the members of the third party [Wildrose Alliance], if any, and the Minister . . . may speak, and
> (d) any Member may speak thereafter.

With the concurrence of the committee the chair will recognize the member of the fourth party, NDP, if any, following the member of the third party, and for the next 20 minutes the member of the fourth party and the minister may speak.

If we can just everyone sort of consent that after the Official Opposition speaks, we can take a 10-minute break. Everybody okay with that?

Hon. Members: Agreed.

The Chair: Thank you very much.

Committee members, ministers, and other members who are not committee members may participate. Department officials and members' staff may be present but may not address the committee.

Members may speak more than once; however, speaking time is limited to 10 minutes at a time. A minister and a member may combine their time for a total of 20 minutes. Members are asked to advise the chair at the beginning of their speech if they plan to combine their time with the minister's time.

Three hours have been scheduled to consider the estimates of the Department of Finance and Enterprise. If the debate is exhausted prior to three hours, the department's estimates are deemed to have been considered for the time allotted in the schedule, and we will adjourn. Otherwise, we will be adjourning at 9:30 p.m.

Points of order will be dealt with as they arise, and the clock will continue to run.

The vote on the estimates is deferred until Committee of Supply on March 18, 2010.

An amendment to the estimates cannot seek to increase the amount of estimates being considered, change the destination of a grant, or change the destination or purpose of a subsidy. An amendment may be proposed to reduce the estimate, but the amendment cannot propose to reduce the estimate by its full amount. The vote on amendments is also deferred until Committee of Supply, which is March 18, 2010.

Written amendments must be reviewed by Parliamentary Counsel no later than 6 p.m. on the day they are to be moved. Seventeen copies of the amendments must be provided at the meeting for committee members and staff.

Follow-up information. A written response by the office of the Minister of Finance and Enterprise to the questions deferred during the course of this meeting can be tabled in the Assembly by the minister or through the Clerk of the Legislative Assembly for the benefit of all MLAs. A copy to the committee clerk would also be appreciated.

Mr. Allred: Chair, could I ask for unanimous consent to allow members to split their 20 minutes with another member?

The Chair: Okay. You're talking about the government members?

Mr. Allred: I think it could be open for all members.

The Chair: Generally, the way the rules are set up, the first hour goes to the opposition, the next 20 minutes goes to Wildrose, the next 20 minutes goes to the NDP, and the following 20 minutes are for the government members. What you're asking is that 20 minutes could it be split amongst the government members. That's your question. Do I understand it correctly?

Mr. Allred: That's correct. But I wouldn't want to restrict it to the government members.

The Chair: Any member after that? Is everybody agreeable with that?

Mr. MacDonald: No.

The Chair: Okay. No problem, then.

Now, with that, Minister, I'm going to ask you to make your opening remarks. You have the maximum of 10 minutes, please.

Dr. Morton: Thank you, Chair. I'd like to begin by thanking everybody in the ministry for all the work you've done propping me up over the last five or six weeks, all the work that you did going into the budget for the government and also for this ministry. Thank you very much.

I will begin by outlining my ministry's areas of responsibility. These include budget and fiscal planning, tax and revenue administration, and enterprise. Enterprise includes industry and regional development, Alberta Economic Development Authority, and the Northern Alberta Development Council. This ministry is not unique in that we have a number of endowment funds, agencies, and Crown corporations that report to it. These include Alberta Capital Finance Authority and the Alberta Pensions Services Corporation. As you can see, my ministry is responsible for a number of key areas that Albertans and Alberta businesses have come to depend upon. While we continue to focus on these ministry priorities, we do not operate in a vacuum. Our goals support the objectives of the entire government of Alberta.

This year in my mandate letter from Premier Stelmach our ministry has been tasked with a number of goals that will create a strong foundation for continued economic growth. These include our targets over the next year. We will take the lead and work with other jurisdictions to develop a policy that enables a supplemental pension plan for Albertans currently not covered by pension plans. We will work with ministry partners to enhance the province's economic competitiveness to attract new investment and keep Albertans working. We will work with our colleagues in government to promote innovation and value-added activities to create highly skilled and sustainable jobs for Albertans, encourage economic diversification, and strengthen the province's economic fiscal resiliency. We will support Albertans investing in Alberta through the Alberta capital bonds, and, perhaps most importantly given these economic times, we will develop a long-term fiscal plan intended to ensure our continued future prosperity.

Between my mandate letter from the Premier and the many responsibilities of the ministry it is clear we have a number of initiatives to achieve. Moving forward, this ministry will continue providing expert economic, financial, and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity.

Our business plan lays out the framework and the approach to achieving these goals. The following six strategic priorities have been identified in our business plan: sound economic and fiscal policy, support for savings by individual Albertans, productivity and competitiveness, adding value to our resources, an effective and efficient regulatory system, and, finally, an affordable, efficient, and fair insurance system. These six priorities guide the ministry. They keep the department on track as we focus on the day-to-day functions that manage the province's finances.

6:40

In turn, these day-to-day tasks support seven core business goals identified by the ministry. These goals are, one, to provide strong and sustainable finances; two, to provide sound tax and economic policy; three, to create an environment that supports Alberta's competitive and productive economy; four, to provide revenue programs that are administered fairly, efficiently, and effectively; five, to provide sound investment, treasury, and risk management; six, to provide policy and regulatory oversight for the financial, insurance, and pension sectors that, again, is effective, fair, and in the interests of Albertans; and seven, to provide accessible financial services for Albertans. I'll take a moment to go through each of these seven goals.

Goal 1 is to provide strong and sustainable finances for the province. As Budget 2010 shows, we are continuing to provide sound fiscal planning backed by prudent economic and revenue forecasting. Unlike many other Canadian jurisdictions we will continue to provide quarterly updates in addition to annual budgets. These reports demonstrate our transparency and keep Albertans informed on the province's financial situation.

This ministry is also looking at a savings bill that will force the government to begin building up another fund when our fiscal situation improves. This bill would limit government spending while still allowing for some flexibility. Going forward, we are aiming to ensure sustainability in our budgeting and stop the pendulum swing from spending too much during the good years and cutting back too much in the lean years.

Goal 2 is to continue to maintain our competitive tax advantage at both the corporate and personal levels. Budget 2010 helps ensure that Alberta continues to have the best tax system in the country. This helps attract investment from around the world, creates opportunities for Albertans, and attracts and retains skilled workers. Not only do we have the lowest personal taxes in Canada, we continue to be the only province that does not have a provincial sales tax. These benefits coupled with Alberta's low fuel tax and low corporate tax rate support the growth and development of both small and large businesses.

Our third goal is to create an environment that supports Alberta's competitive and productive economy. Our ministry realizes the importance of economic diversity and creating an environment conducive to doing business. To support this goal, we will continue working with all levels of government and industry stakeholders. Together we will advance opportunities and overcome challenges. We will increase productivity, innovation, and economic diversification across the province.

Over the years this ministry has developed strong relationships with the Alberta Economic Development Authority, the Northern Alberta Development Council, and the regional economic development alliances to ensure Alberta has a competitive climate. Moving forward, we will continue to work with these partners to increase Alberta's success both here and abroad.

Alberta is rich in energy resources, and there is no denying that the oil sands have a significant part in our future. To capitalize on this, we are developing a bitumen royalty in kind policy that would see government take its royalty share in raw bitumen and use it to encourage value-added production in the province. We believe this policy will foster increased value of this important resource. By supporting value-added opportunities, we can help Alberta industries develop a more diverse array of products from the oil sands that can access a wider range of markets, which means more spinoff opportunities and jobs.

Of course, Alberta is home to expertise in other areas besides natural resources, including aerospace and defence, environmental products and services, and green building products. Our ministry continues to look at ways to enhance value in all Alberta products and activities, which is especially important in our volatile economic climate.

To help improve productivity and competitiveness for all industries, our Regulatory Review Secretariat will work to create a more balanced approach for Alberta's regulatory framework. This means that the right rules, not more rules, are in place to boost Alberta's economic growth, quality of life, and environmental standards. The ministry is moving forward with a regulatory reform agenda that will reduce the burden placed on business. By eliminating unnecessary red tape, Alberta businesses can focus on productivity rather than compliance with redundant or ineffective or outdated regulations.

Goal 4 focuses on our plan to provide revenue programs that are administered fairly, efficiently, and effectively. One initiative to support this goal is to reduce the corporate tax refund interest rates by 50 per cent. The province's interest rates were considerably higher than those of commercial banks. Businesses will continue to benefit from higher rates than if they deposited with a commercial bank, and the change will save Albertans money and help us balance our budget by 2012.

Goal 5. As always, the ministry aims to provide sound investment, treasury, and risk management. Responsible borrowing is a key component of this goal. At this stage the government has borrowed $1.4 billion to support capital projects, which allows us to take advantage of current low interest rates. The province has also borrowed an additional $1.2 billion to pay for a portion of the deficit it assumed in the teachers' pension plan.

Selling Alberta capital bonds is another borrowing strategy, with a target of bringing in $100 million, and is a way for Albertans to invest in the future of their province. Revenues from the Alberta capital bonds will support capital infrastructure projects. Borrowing to build also keeps Albertans at work while the province moves toward economic recovery.

This strategy has been met with positive reactions from many commentators in sectors across Alberta, including Mr. Brian Mason who said, "I think that bonds are a reasonable way to go if you are going to borrow." I think that the idea of getting Albertans involved in lending to the province money . . . [A bell sounded]

The Chair: Thank you very much, Minister. I apologize.

With that, we're going to move on to Mr. MacDonald. Mr. MacDonald, you have one hour. Do you want to go back and forth, or do you want to go 10 and 10?

Mr. MacDonald: No, I would much prefer to go back and forth, please, Mr. Chairman.

The Chair: Okay. Mr. Minister, are you okay with that?

Dr. Morton: I can't wait.

The Chair: Okay. Go ahead.

Mr. MacDonald: I'm disappointed that the minister didn't get to complete his remarks regarding goals.

Dr. Morton: I'd be happy to do so if you want to loan me your time.

Mr. MacDonald: No, that's not necessary. But did you say you had six goals?

Dr. Morton: That's right.

Mr. MacDonald: Yes. Well, if you've got six goals in your department, I hope the same can be said for Team Canada at the conclusion of tonight's hockey game.

Dr. Morton: They were getting close.

Mr. MacDonald: Good.

Mr. Mason: It's 6 to 2 right now.

Mr. MacDonald: It's 6 to 2. Wow.

Mr. Fawcett: It's 7-2.

Mr. MacDonald: It's 7-2. That's getting better.

I think, Mr. Chairman, we'll start with some discussion on the debt. Page 10 of the government of Alberta strategic business plan states the following:

> The Ministry of Finance will support Albertans investing in Alberta through Alberta Capital Bonds; and, working . . . with the Premier's Council for Economic Strategy, develop a long-term fiscal plan that will ensure our continued future prosperity.

My first question to the hon. minister would be this: what is the government's plan to pay off the $3.3 billion in direct borrowing that it has committed to?

Dr. Morton: I've made a commitment, referred to tonight in my opening remarks and fairly widely in the media, that I anticipate developing with caucus and through caucus legislation this year to ensure that as we move from deficit to surplus in our budgeting, there will be a mandatory replenishing of the sustainability fund. Included in that will be a plan to pay off the debt incurred for capital building over the last several years.

Mr. MacDonald: Thank you. What are the costs of this borrowing?

Dr. Morton: Do you want interest rates, or do you want just the projections?

Mr. MacDonald: The projections, please.

Dr. Morton: The estimates for 2010-11 are $273 million.

Mr. MacDonald: Thank you. What is the cost to the government for the $100 million in Alberta capital bonds?

6:50

Dr. Morton: At 3 per cent it's $3.3 million a year if we borrow the hundred million. There is also some cost for advertising and administration.

Mr. MacDonald: Okay. Page 199 of the ministry estimates, element 7.0.1, shows an expense of 15 and a half million dollars for grants for school construction debenture interest payment. This is over a $4 million, or 28 per cent, decrease from the previous year. Why did the grants for school construction debenture interest payment decrease?

Dr. Morton: Why don't I give you the complete answer here since I know you like complete answers? Under the Fiscal Responsibility Act supported school construction debt incurred prior to 1993 forms part of the province's accumulated debt, and interest payments are deemed to be voted debt servicing costs rather than program costs. The grant payments are administered on Finance and Enterprise's behalf by Education. The debt matures in 2019-20. The principal portion of these payments is a voted nonbudgetary disbursement. The budget variance, the difference between the '10-11 estimate versus the '09-10 budget, is explained by the fact that there is a $4.4 million decrease. That variance is attributable to ongoing repayments of the debentures.

Mr. MacDonald: Thank you. In your opening remarks I think you mentioned the $288 million debt servicing cost number. On page 205 of the ministry estimates the debt serving costs are estimated, as you indicated, to be $288 million, and this is a $93 million increase, or a 48 per cent increase, from last year. What is the specific reason for this huge increase in debt servicing costs? Is it that first issue of bonds, going back to last summer?

Dr. Morton: It's a combination of the borrowing for infrastructure and the increased interest on the pre-1992 unfunded liability of the teachers' pension.

Mr. MacDonald: Okay. Thank you very much for that. Now, what steps are you taking to ensure that Alberta's debt and debt servicing costs are kept under control? We're already paying close to $300 million in debt servicing costs, and we're just beginning, as I understand it, to borrow more for capital. What checks are in place in your department to limit or restrict this borrowing?

Dr. Morton: Our plan, as we've laid it out in the budget, of course, is to have a balanced budget by '12-13, and we have no additional borrowing plan beyond the $3.3 billion that we announced last year.

Mr. MacDonald: Okay. Thank you. Now, the deficit. This is the third year in a row that the government is forecasting a deficit. I believe the target deficit for 2011-12 is going to be an additional billion dollars as well, and you're looking at a modest surplus in '12-13 of $500 million. Page 14 of the fiscal plan states that "the Sustainability Fund will be replenished beginning in 2012-13, as the first plank" in the savings policy of this province. What exactly is the savings policy? If this is the first plank, what's the second, and what's the third?

Dr. Morton: Let me see if I can get a copy of the page you're referring to. What's the page, again?

Mr. MacDonald: Page 14 of the fiscal plan.

Dr. Morton: That would be the savings plan that I've referenced in speaking during the budget week and that I referenced a moment ago in response to one of your earlier questions.

Mr. MacDonald: Okay. So if this is the first plank, again, what are the second and the third planks, and why are you not communicating this savings policy to taxpayers?

Dr. Morton: The plan is to be developed. That's what I've said earlier. One of the things that I'll work on with caucus this year is a plan to, as we return to surpluses, both replenish the sustainability fund and repay debt.

Mr. MacDonald: Okay. I appreciate that. Now, I guess that after that answer, Mr. Chairman, I know why the *Edmonton Journal* had the political cartoon that they did over the weekend in their paper, where the Premier was bundled up in the cold waiting for a bus – I don't think you were driving it – but the bus was going to be the economic recovery, and he was going to hop on that bus.

Dr. Morton: I think I might feel compelled to respond to that humourous jibe. In the 72 hours after the budget was tabled, there were comments made by RBC Dominion, Bank of Montreal – who else? – TD financial services. There were at least four different banks or financial institutions that analyzed our budget and confirmed the accuracy of our estimates and projections on energy prices for the current and out-years, on exchange rates for the current and out-years. They said – and I know this will shock you, Hugh – that, if anything, Minister Morton was a little conservative.

Mr. MacDonald: If anything. The Taxpayers Federation also had commentary on the budget, as did several other groups. I hope your projections are right. Your $79 a barrel projection for oil, I really hope you're right. When we look at last year, we see the unemployment rate, what the projection was, we see the interest rates, we see the Canadian dollar. These are all important sensitivity projections, or whatever you want to call them, and I certainly hope for the sake of this province and their books that you are right.

Dr. Morton: And my sake.

Mr. MacDonald: I never looked at it that way, Mr. Chairman. But I really do hope you're bang on because we need the money.

Dr. Morton: I appreciate those well wishes from the hon. member, Chair. We don't often hear that.

Mr. MacDonald: Oh, you hear that, but I'm afraid you're not listening.

Now, a responsible household budget – if we compare your budget to a household budget, you know, there are issues, and there are concerns. It was described to me like this, and this was on the day of your budget presentation: it sounds like he is borrowing money from his savings account to balance at the end of the month his chequing account and ignoring completely his credit card bill that comes in at the end of the month, and the credit card bill is going up. That's how a constituent described this budget.

Dr. Morton: I'd hate to see that constituent's financial statement if he's that confused.

7:00

Mr. MacDonald: Well, this gentleman is certainly not confused.

What is the government's plan if the economy doesn't recover in the next two years? If your projections are wrong, what's going to happen?

Dr. Morton: The options are fairly obvious. There's still some money left in the sustainability fund, and there's still the option of reducing expenditures.

Mr. MacDonald: Okay. Thank you.

Now, page 11 of the fiscal plan shows that the government's spending is projected to rise to $39.7 billion for 2012-13. Expense for this year is estimated to be $38.7 billion, up from $36.7 billion in 2008-09, when the government had record resource revenue coming in. This means that from 2008-09 to 2012-13 the government will have increased spending by 8 per cent. How will the government sustain these spending increases if nonrenewable resource revenue doesn't increase as projected? Again, what is the backup plan, and how long can the spending increases be maintained over the long term?

Dr. Morton: I think that if you look at our proposed total expenses for the next fiscal year, for '11-12, they're actually lower than the current year. Did you not notice that curious fact? So you should be asking me: why would next year's expenditures be lower?

Mr. MacDonald: Well, you've got to be careful with that one. We're not talking about expenditures; we're talking about your spending.

Dr. Morton: Those are almost identical for the next year as well.

Mr. MacDonald: Well, I think you should be very careful, sir.

Dr. Morton: Well, that's the whole point. That's why I'm the new finance minister. That's why the hon. member on your right is so happy.

Mr. MacDonald: Now, the fiscal strategy. The significant opportunities and challenges table on page 134 of the ministry business plan states that there will be "a renewed emphasis on promoting fiscal sustainability." It also states the following:

> The ministry will continue to address the issue of fiscal sustainability by developing and communicating longer-term revenue and spending forecasts and pursuing a more stringent savings strategy during times of revenue upswings.
>
> The ministry will also continue to work with other ministries to assess the cost drivers underlying major government programs and services as a tool for more effective fiscal planning.

What does communicating have to do with any of this? Shouldn't implementing a sustainability plan be a priority over communicating why we need one?

Dr. Morton: I'm not sure I get the exact drift of your question. But if you're talking about long-term sustainable resources and working with other ministries to find efficiencies, I would point out that in the current year, in budget '09-10, the one we're just finishing, our initial target of $215 million of savings was met. By June we doubled that and found another $215 million in savings by the third quarter, so $430 million of in-year savings this year. In addition to that, as you've noticed because your party has criticized us for this, we also realized $1.3 billion in spending reductions from budget '09-10 to the budget we're discussing tonight, budget '10-11. Of the 23 ministries 15 have smaller budgets than they had last year. So while overall spending is obviously up mainly because of the health care expenditures, I think we've shown considerable success just in the last 12 months in reducing expenditures to reflect reduced income.

Mr. MacDonald: Okay. Certainly, there have been criticisms directed not at the fact that you were trying to control, you know, your wasteful spending but at where you didn't cut, for instance Horse Racing Alberta. I haven't heard a word also from your department regarding some of the fuel benefit allowances that need to be audited and checked to make sure that that money is being spent wisely. We're not hearing a word on that from you, and that's where we would like to see you have a look at future cost savings.

For instance, we have a rather large contract with IBM. Do we need to be spending that money on IT across government services? Hopefully you will do a value audit on that, you will do a value audit on things like the $330 million that we spend on privatized road maintenance. I was delighted to learn that Service Alberta, if I heard the hon. minister correctly, is now looking at purchasing cars and not going along with these long-term leasing agreements they had to supply the government fleet. So there are ways, hon. minister, that I think you can find considerable savings.

That being said, what are the details of the more stringent saving strategy that you are to employ? Are you going to have some audits done on some of the bigger contracts that your government has with various suppliers?

Dr. Morton: Well, with reference to the farm fuel benefit program, the responsibility for auditing that is in Agriculture, but we do do audits of other programs. Of course, we get audited by the Auditor General as well. I believe those audits are both attest and value audits.

Mr. MacDonald: Well, hon. minister, you can correct me if I'm wrong here, but you're right: the minister of agriculture provides $32 million or $33 million in a farm fuel benefit program. But there are two programs. There's also one that would be in your tax and revenue agency, I believe it is. It is a significant amount of money as well. If you look at public accounts, you can see where Finance is reimbursing various fuel distributors in rural Alberta for this program. In total those two programs in the past have been identified as a $100 million expenditure annually. The Auditor General has had things to say about it.

Going back to whenever the current Premier was minister of agriculture, there was an internal audit that we had acquired through access to information that indicated that there were significant problems with the delivery of that program and that there were individuals that should not be eligible who were receiving money. That's a place where you could start.

Dr. Morton: I think the problem that the Auditor General found was with Agriculture's auditing. There was a component of that called the declarations for the farmer distribution that somehow was not being done properly, but I'm informed that that problem has been corrected at Agriculture. Within Finance we do audit that particular program as well.

Mr. MacDonald: And do you have any idea how much money is allocated for your end of the farm fuel benefit program?

7:10

Dr. Morton: In the interest of time why don't we get that to you in writing later?

Mr. MacDonald: That's fine, Mr. Chairman. Through the clerk to all members.

The Chair: Yeah. Through the clerk to all members. You have the option of tabling it in the House as well.

Mr. MacDonald: Okay. Page 136 of the government of Alberta's ministry business plan states that the government will

> review existing economic and fiscal policy and develop direction, principles, priorities and tools to effectively and efficiently address medium-term investment, economic and fiscal issues." Last year the government also said it would renew Alberta's fiscal framework.

The government has been talking about fiscal reviews and new frameworks for savings and long-term strategies for years and has yet to actually make any changes to its spending practices and lack of savings aside from this year, when it was forced to cut a little bit of spending because of the recession. How much longer do taxpayers have to wait before the government actually puts forward a comprehensive fiscal strategy that includes a long-term vision for all savings, whether it be heritage savings trust fund or any of our endowment funds, controlled spending, and a reduction in the reliance on nonrenewable resource revenue to fund core government programs?

Dr. Morton: The Fiscal Responsibility Act still is the guiding document in this regard. It's been amended, I'd estimate, three times in the five years I've been here. So to say that there have been no changes in our fiscal framework is I don't believe accurate. It may be that you don't approve of some of the changes, which is fair enough, but to say that there have been no changes I don't believe is accurate.

Mr. MacDonald: Well, it would be the equivalent, again, of an individual going to an ATM machine and taking out more and more money, and their income is not going up. Same thing. You keep changing the rules because you do not want to live by the existing rules, so you change them and make them more lenient.

Dr. Morton: Again, Chair, I would suggest that we have a sustainability fund for a reason, which is that when revenues decline, the sustainability fund allows us to sustain a certain level of expenditure, particularly on the capital and priority services side, rather than seeing the annual budgets dip and dive with the economy.

Now, the counterpart to that that the hon. member has asked a few questions about is when revenues recover and we move back into a surplus situation. The flip side to that is there has to be a savings component, and I just hope that he and the other members of his party will remember that when they start asking in a couple of years for more spending.

Mr. MacDonald: We want smart spending. You have to remember that the sustainability plan or whatever you want to call it, the stabilization fund, was a major plank of this party, and politically you should be very grateful for having that idea at your disposal now.

Dr. Morton: We're grateful for you all the time.

Mr. MacDonald: I bet.

Now, last year the Fiscal Responsibility Act was amended to allow for deficits.

Dr. Morton: Right. A recent change.

Mr. MacDonald: Yeah. One of the three. The limit of $5.3 billion for how much nonrenewable resource revenue that can be spent before it has to be transferred to the sustainability fund was eliminated as well as the clause legislating that $2.5 billion must be retained in the sustainability fund for natural disasters and other emergencies. The only limit now that I see on deficits and drawing from the sustainability fund is that the fund can't be drawn below what is in the account, meaning that the government can spend every penny in the fund and can spend every penny of nonrenewable resource revenue without any of it having to be put or placed into savings or the sustainability fund.

Since the limitation on the amount of nonrenewable resource revenue that can be directly used for budget purposes was eliminated, again, what checks are left to prevent the government from continuing to mismanage the finite resource revenue that Albertans have become so reliant on?

Dr. Morton: Mr. Chair, the elimination of the $5.3 billion rule was to basically achieve more flexibility but also transparency. There were three different funds that were involved there. There was the sustainability fund, the capital fund, the carbon capture and storage fund. Those are the primary ones. The $5.3 billion limit created some confusion on that. Similarly, with the $2.5 billion limit on natural disasters it was felt that under certain circumstances that could be unduly limiting if one occurred. That $2.5 billion limit and why it couldn't be drawn below that would be limiting if we were in a circumstance where there was a natural disaster and the fund was at or near that limit. But there is a limit on in-year spending again. It's 1 per cent of operating, which you're aware of because you watch us like a hawk to make sure we don't go over that.

Mr. MacDonald: Okay. Now, while we're on this topic, the gentleman sitting to my left and the one to my right don't have the same view of the carbon capture and storage policy that I do, but the money that was allocated for both carbon capture and storage and Green TRIP, that was sort of waiting in the sustainability fund: is that amount that's unallocated still set aside in the sustainability fund in this budget year?

Dr. Morton: Chair, with the folding in of the carbon capture and storage and Green TRIP fund and the capital fund into the sustainability fund, the segregation of those funds no longer exists in a legal or fiscal sense, but the government commitment to do that is still there. If you look at our capital plan, you'll see that our commitments are there although they have been reduced, which I would assume you would approve of since you are a little concerned about our overspending in times of decreased revenues.

Mr. MacDonald: Well, I would much prefer it if you would stretch out the capital plan, the $7.2 billion or whatever it is, over a much longer period. I was surprised to learn in Public Accounts this morning from the Infrastructure officials just how much money they're saving as projects are being finished. They're under budget and on time.

Dr. Morton: What a job he's doing, eh?

Mr. MacDonald: He's doing a crackerjack job, that fellow. Yeah. Mr. Day, I think his name was.

Dr. Morton: I was referring to the minister.

Mr. MacDonald: Oh, I was referring to the . . .

Dr. Morton: To the deputy minister.

Mr. MacDonald: Who is the minister?

Dr. Morton: Did you say Infrastructure?

Mr. MacDonald: Yes.

Dr. Morton: Oh. I thought you said Transportation.

Mr. MacDonald: Now, page 10 of the strategic business plan of the government of Alberta states the following.

> The Ministry of Finance will support Albertans investing in Alberta through Alberta Capital Bonds; and, working . . . with the Premier's Council for Economic Strategy, develop a long-term fiscal plan that will ensure our continued future prosperity.

What specific advice or recommendations have been made by the Premier's Council for Economic Strategy and what involvement has the department or the ministry of finance had with this council?

7:20

Dr. Morton: I'm happy to report that I have met with the chair of that council, the hon. David Emerson, and discussed the mandate that has been given, but the council itself has not yet issued a report.

Mr. MacDonald: Okay. Now, the government didn't listen to the advice of the Mintz commission. If you're not willing to listen to an individual as well respected as Professor Mintz, why is the Premier's Council for Economic Strategy even necessary?

Dr. Morton: Mr. Chair, I don't think it's quite accurate to say that we didn't listen to the Mintz report. Certainly, it was discussed. A number of us read it pretty carefully. A number of us think that it contains a lot of good advice, but in the context – remember that the Mintz report was predicated on the idea that there were significant surpluses, and it was how to deal with those surpluses. Those surpluses have disappeared over the last two fiscal years, and our projection is that there won't be a surplus for at least another two years. I think what would be more accurate to say is that we've deferred the response to the Mintz report pending a change in our fiscal situation.

Again, I'd go back to my comments the week of the budget and the ones that the hon. member has referenced this evening, that I think it is important that we begin to address in the coming year plans for both a savings strategy and a debt repayment strategy next year in anticipation of moving back into the black so that when we do, we're prepared. Certainly, the Mintz report would be given serious attention and consideration in that policy development.

In terms of the Premier's Council for Economic Strategy, their mandate, as I understand it, is more medium to long term, looking out 20 or 30 years, so I don't think it's too surprising that we haven't heard back from them yet.

Mr. MacDonald: Okay. Our time is quickly running out, Mr. Chairman. I have a lot of questions and very little time.

Retired constituents have been contacting our office regarding their pensions. So many people forget the very important work your ministry does administering a lot of different pensions. You only have to look at the annual report to see that. I think you've got a lot of competent people in there doing their very best in difficult times. What is the current total loss to public pension plans as a result of the past market disruption?

Dr. Morton: In the interest of time and accuracy, Chair, could I give an answer to that question in writing?

The Chair: Yeah, either through the clerk or you have the option of tabling it in the House.

Dr. Morton: Is that okay with the hon. member?

Mr. MacDonald: Yes, certainly. I have additional questions as well in this nature regarding pensions. Now, what plans does the department have to deal with these losses, and most importantly how will these losses impact retirees already drawing on the funds and employees currently contributing to the funds? I see where Mr. Stockwell Day, the former finance minister in this jurisdiction, is looking at increasing the amount that current employees will make to their pension contributions through the federal public service.

Dr. Morton: Chair, I think most of or all of the pension plans referred to by the hon. member are defined benefit plans, which means the benefit paid out does not change.

I wasn't aware of the reference that the hon. member made to the plans that have been floated federally by Minister Day. Is that right?

Mr. MacDonald: Well, they're looking at changing the contribution level. That's one of the ideas that has been floated.

Dr. Morton: Well, the relevant statutes for these pension plans do include formulas for replenishing capital when and if an unfunded liability occurs, so there is a built-in formula, as I understand it, in terms of contributions to replenish what's required in the principal. But let's make sure we get a complete answer to you in writing since that was kind of the final of a series of three or four questions on loss of asset value in the pension funds. Is that correct?

Mr. MacDonald: Yes. That's correct. Specifically the public-sector management pension plan: the formula would change, you're telling me, as was necessary.

Dr. Morton: The contributions, yeah.

Mr. MacDonald: Yeah. The contributions. What would that do for retirees? That would not affect retirees?

Dr. Morton: No. It does not affect them because they're drawing the benefits, which in a defined benefit plan are not changed.

Mr. MacDonald: Okay. Well, I appreciate that.

Now, getting back to the Treasury Branches for a moment, I note that there are provisions for losses in the Treasury Branches, and I note that in the next two fiscal years there's also – and this is in the fiscal plan. Should we be concerned about the increase in these provisions in the Alberta Treasury Branches from this budget year ahead to the next two years?

Dr. Morton: It is true that ATB has been impacted by the reduction in prime rates. The interest income is more sensitive to rate changes than interest expense reducing net interest income. It's also been impacted by a lack of liquidity in financial markets and also competition among all financial institutions for client deposits. For '09-10 ATB had assumed that it would continue to be a difficult year with a low prime rate and some increased credit risk associated with the economy.

Having said that, ATB's credit portfolios are in good shape and have sound provisions for potential losses. Based on current credit quality, ATB expects that fiscal 2010 provisions for credit losses will remain in the targeted range of 20 to 30 basis points of average loans. That's a technical answer, but it's a technically accurate answer.

Mr. MacDonald: Okay. Now, I'm looking at the ministry budget, page 198, the Cabinet Policy Committee on the Economy. There's a $240,000 expense for the cabinet policy committee. What work does this committee do, and how often does it meet? That's element 1.0.5 on page 198.

7:30

Dr. Morton: Well, it meets once every two weeks when the Legislature is not in session – and here's the beauty – it meets once a week on a rotating basis with the other four committees. What do you think that means? It means once a month.

What do they do? They do a lot. I've sat on them. They review and make recommendations on policy, programs, budgets, and legislation. In this instance the mandate or the jurisdiction of this particular CPC includes postsecondary education, apprenticeship, technology, human resources, labour, immigration, infrastructure, transportation, economic development, small business, and revenue. It also looks at the budgetary implications of proposals.

I did want to use this opportunity, Chair, if I might, to point out that there have been some questions asked just this week about the authority for these CPCs and how they're appointed, and there were allegations made of a secret or missing order in council. I have a copy of the order in council that creates these CPCs and also explains that they're appointed by the Premier. I'd be happy to provide the member with a copy of the so-called secret order in council.

Mr. MacDonald: I would be delighted to receive a copy of that. Is it 187/240, or something like that, dated May 28, 2008?

Dr. Morton: Dated May 28, 2008. Yes.

Mr. MacDonald: Yeah. I would be delighted to have it. I'm going to go out on a limb here and say that that's to set up the fee schedules for payment for service on those committees, but it is not the order in council. I will certainly apologize if I'm wrong. But send it up here if you don't mind, and we'll have a look.

The Chair: Members, we've got about 14 minutes remaining. I'm just going to give you a heads-up.

Mr. MacDonald: Thanks. I appreciate that, Mr. Chair.

Now, before we leave the Cabinet Policy Committee on the Economy, the $240,000 allocation is almost double what it was in 2007-08. What exactly is that money used for? Is it for support staff? Is it for research? Is it for lunch for the members?

Dr. Morton: I can give quite a precise answer to that, Chair. The $240,000 covers the cost of one permanent staff member, salary of around $65,300; payments to the chair and members that sit on the committee, which total $162,300; and then a small supply budget of $12,000. So there's your $240,000.

Mr. MacDonald: Okay. Thanks. Now, element 4.0.1: investment, treasury, and risk management. Why did the expense for treasury management increase by $3.7 million, or 25 per cent, from the previous year? What extra work is being done there to back up that 25 per cent increase?

Dr. Morton: The simple answer, Chair, is that those are the AIMCo fees charged for managing GRF funds, but we can get you a more detailed answer if the hon. member would like it.

Mr. MacDonald: Okay. Well, perhaps you could provide more information on the general revenue fund. On page 209 in the department's statement of operations you estimate the investment income from the general revenue fund to be $466 million. That's down from previous years, but I guess we could certainly live with that. This money, this investment income generated from the general revenue fund, how is it accounted for when you compare it, say, to the sustainability fund, the investment income that would, in the short term, be acquired from those short-term investments in the sustainability fund?

Dr. Morton: It would seem prudent to give you a written answer to that question.

Mr. MacDonald: Okay. I can appreciate that. That's a lot of money, and it's always been a mystery to me how the general revenue fund operates. You don't hear much about it, and at any time in a given year I can only assume that there are billions of dollars in that fund.

Dr. Morton: I'll give you my commitment that when we get the answer, if I don't understand it, I'll send it back, and they can rewrite it until I understand it, too.

Mr. MacDonald: Okay. I appreciate that.

Now, on page 203 there are some statutory capital investments listed. The $15 million allocation for AIMCo, the Alberta Investment Management Corporation: is that just to get it up and running, finally? Is that for a computer system or . . .

Dr. Morton: It's a combination of a new computer system and moving to new facilities.

Mr. MacDonald: Okay. Also, the Alberta Securities Commission, further down that same column, is to receive $11 million, and the year before they received $700,000. What sort of capital investment is that for, please?

Dr. Morton: Again, the increase is attributable in this case to office relocation expenses, including 65,000 square feet of leasehold developments, related furniture, and IT.

Mr. MacDonald: In Calgary?

Dr. Morton: I assume. Yes.

Mr. MacDonald: Thank you very much. Now, on page 198, element 5.0.1., the assistant deputy minister's office.

Dr. Morton: Page 198?

Mr. MacDonald: Page 198, yes. Element 5.0.1. The assistant deputy minister's office is not in ministry support services, and there is an increase here, 30 per cent, from the previous year. Why did the expense for the assistant deputy minister's office increase by an amount close to 30 per cent from the previous year, over $373,000?

7:40

Dr. Morton: I'd suggest that we give you that in writing as well to make sure it's an accurate answer.

Mr. MacDonald: Okay. Thank you. Now, line 5.0.5 on the same page, the Automobile Insurance Rate Board. That expense has gone up significantly, 27 per cent from the previous year. Could you please provide the details as to why it's necessary at this time for that expense to increase by close to $300,000 from the previous year?

Dr. Morton: I think, hon. member, that if you check the columns, you'll see year over year it's only up $30,000. You were looking at the second column, which is the forecast.

Mr. MacDonald: Which is the forecast.

Dr. Morton: Yeah. But then you could ask why the forecast is less. The forecast is less due to a $145,000 decrease in supplies and services related to honoraria. That's the result of a delay in implementing the proposed new premiums regulation.

Mr. MacDonald: Okay. Now, page 219 of the ministry estimates reports that the total program expense for AIMCo increased by $5.8 million, or 3 per cent. This is a net increase attributed to a $19 million decrease in the expense for external investment management fees and an increase in both salaries and benefits, $14.6 million, and operating costs, $10.2 million. I think, if my math is correct, we are going to 263 full-time equivalents in AIMCo from 238 in 2009-10. How much of the increase in salary and benefits and operating costs is directly related to the decrease in external investment management fees?

The Chair: Just to give you a heads-up, you've got about three minutes remaining, hon. members.

Dr. Morton: Well, I thought I could reference you to a public document, but I can't. I can tell you what the answer is. AIMCo has as part of its mission to reduce its external consulting fees for handling investments in more complex securities, transferring those internally and handling them as an in-house expense. So year over year on AIMCo under external management fees you'll see two years and projected three years of decline, but internally you'll see an increase in salaries because of the increase in personnel that you're referring to. On a net basis AIMCo believes and we believe that that's going to represent a significant savings as they build up in-house expertise.

There's an explanation for that. Let me see if I can get it right. Of the external fees that they pay, according to the explanation that was given to me, probably only about a quarter represents management expense, and the other three-quarters represents publicity and public relations done by these large security management firms. So by avoiding contracting out with them, AIMCo will in effect just be internalizing a fraction of the cost that they charged when we did it on a contract-out basis.

Does that make sense to you?

Mr. MacDonald: No.

Dr. Morton: I actually have a ratio here. External management costs approximately nine times more than internal management, which is a bit shocking, I think you'd agree. The explanation for that is that if you're dealing with Goldman Sachs or somebody like that, you're not just paying for the management they do. You're paying for everything else they do beyond that. AIMCo's strategy is to shift by 2011-12 $8.5 billion, or 12 per cent, of assets from external to internal management, with a goal of reducing annual operating costs by $45 million.

Mr. MacDonald: Thank you.

Now, we have very little time left, and I would like to thank you for your answers today. I look forward to receiving that order in council that you talked about.

The Chair: Thank you very much, hon. members. The time allotted for this item of business has concluded.

We will take a 10-minute break, and then when we come back, we'll start with Mr. Hinman.

[The committee adjourned from 7:47 p.m. to 7:57 p.m.]

The Chair: Okay. Hon. members, welcome back. With that, we're just quickly going to move on to Mr. Hinman.

Mr. Hinman, you've got 20 minutes. Would you like to go back and forth with the minister?

Mr. Hinman: Yes. Back and forth, please.

The Chair: Okay. You're good with that, Minister?

Dr. Morton: Absolutely.

The Chair: Thank you.

Mr. Hinman: Well, it's a pleasure to be here. I guess that to start off, I want to check the good doctor's health. I'm a little bit concerned with his fiscal health. I think you'd agree that it's easy to talk the talk, but walking the walk is quite difficult. When you look at the individuals who will walk on a six-inch beam on the ground, it's easy, but you put it up a hundred feet and the wind is blowing, it's a little tougher. I appreciate the position that you've been put into. It's a tough beam to walk, and I'm concerned with the wind blowing on your confidence. The Premier has stated, and I very much agree, that we cannot tax our way out of a recession or debt. My first question: do you basically agree with that philosophy and feel that we're going to continue down that road?

Dr. Morton: I think I'd better.

Mr. Hinman: Okay. The good Member for Edmonton-Gold Bar asked the question. Again, probably my biggest concern is that we have enough money in the sustainability fund for two years, possibly three years, but it goes back to something that your government said way back when it had a problem: it isn't a revenue problem; it's a spending problem. I'm very much concerned that we are back to a spending problem, and this budget didn't address that. You would also agree that leading by example is critical. Better to lead by example than to talk the talk. I'll take that as a yes.

Dr. Morton: Well, I was going to go back to the spending problem versus revenue problem. I think it's pretty clear that beginning in the summer of 2008, we developed a pretty serious revenue problem, that has continued right through the '09-10 budget year, at least until maybe the last quarter but even the last quarter relative to two years earlier. The world is having its worst recession since the 1930s. So, yes, there is a revenue problem, but that doesn't mean there's not a spending problem.

I think that I indicated in my answers earlier to the previous member that I would say that there were significant savings, significant spending reductions made in-year in the '09-10 budget: $215 million twice – right? – $430 million, and then the $1.3 billion of savings that we identified for the current budget year, '10-11. Again, I'm sure you hear this from your constituents, that 15 out of the 23 ministries will have less money next year, Budget '10-11, than they had in Budget '09-10. I would acknowledge that we have had both a spending and a revenue problem and that we're doing our best to address both.

Mr. Hinman: I appreciate that you've brought up the 15 and 23. That's why I asked the question if you felt that it was important to lead by example. It's interesting to me that in your department your ministry support services hasn't reduced its cost. It's actually gone up somewhat, and I would ask you to look in the future.

Again, some questions were asked about the CPCs and the value there. I'm very concerned, you know, with that $232,000 to that $240,000. Going back a few years, if you look at the year-over-year increases, it has been quite dramatic. I'd like to see 16 of 23 when you come back in, I guess you could say, the overall budget.

I'm just concerned with the ministry support services. I guess I have to ask the question: do you ever get to the point where we have so many committees studying things and so much information coming that the information really is of no value because it's so conflicting and from so many different people, from the Mintz report to your own cabinet policy committee to everyone else? I'm just concerned that we've got so much management and so much expense there that it's going to be very difficult, going forward, to get information because you're getting information from both sides.

I also found it quite interesting that the minister finished off his opening remarks by quoting a more famous or infamous member of the House in that it's great to be borrowing money. The NDPs traditionally have not served all their jurisdictions well because of the borrowing that they did, and to quote him on why you were borrowing money is a bit of a concern for me.

Mr. Mason: What will it do to our credit rating, Mr. Minister?

Mr. Hinman: You have 20 minutes later, you said, Brian.

Mr. Mason: Well, then leave me out of it.

Mr. Hinman: You're just too compelling, though.

Dr. Morton: Could I respond to a couple of things you've said?

Mr. Hinman: Sure.

Dr. Morton: I guess I'd begin by pointing out that the ministry budget that I feel most responsible for was one I worked on for the last three years, including this year, which is not finance. It's Sustainable Resource Development, which has a 9.7 per cent decrease year over year in its budget.

Mr. Hinman: So you're saying that this ministry's budget isn't yours, then, and that you had to accept what was there and were unable to make any changes?

Dr. Morton: That's right, but I'll also explain to you why finance's budget is what it is. The net increases are primarily a result of statutory obligations: the pre-1992 teachers' pension plan plus also debt servicing. Those represented significant new expenses. There were reductions in Alberta Capital Finance Authority, AIMCo, and the ministry. The ministry itself, budget expenditures, actually went down, and I can give you details on all that if you want. The debt servicing and the pre-92 teachers' pension plan are the big reasons for the increase in finance's budget, and those are nondiscretionary.

Mr. Hinman: And I agree on that. That's one of the questions that I have that I believe the hon. Member for Edmonton-Gold Bar didn't address, and perhaps we can start on that technical question.

Dr. Morton: Could I just say that the department proper actually had a 15 per cent reduction in expenditures?

Mr. Hinman: Like I say, I was referring to the ministry support services, though, which is the inner core and, I think, an excellent place to set an example.

To go back, then, we'll get to the pre-92 pension costs. You talked about a spending problem. I wanted to go back to something that you have spoken to over the years and many others have agreed with, but now all of a sudden, caught on the other side, it's changed.

8:05

If we were to go back to inflation plus population growth to 1997, when we were just kind of getting things under control after five years of tough cuts, we would have had a $9.85 billion surplus this year had we restricted and limited our spending. Had we just started that in 2002, as we were getting out of debt, just a year or two when it was being paid off, we would have a $6.36 billion surplus this year instead of a $4.7 billion debt. I think it's a spending problem.

This government has bragged many times about the overwhelming amount of money they're spending on infrastructure, the superinflationary period they caused by putting in $18 billion over a short, three-year period, the dollars that we're chasing. The capacity of the industry was exceeded; inflation was in there. I think very much that it's a spending problem. Again, we need to go back, and it would be a good thing to go forward as you talk about a savings plan in those areas.

To ask about the '92 unfunded liability of the teachers – I'm just not sure. Can you extend that out and tell us? I don't even know what the numbers are right now, but it has almost doubled in the last two or three years to, I think, $400 million from $242 million. Extended out, what are those payments going to be? What are the actual unfunded liabilities to your office going forward on that pre-92 statutory expense? I guess we're at $241 million. It had escalated to $437 million. What is that going forward?

Dr. Morton: Well, if you go back to the original plan, the payout period is out to 2060. That was the original agreement in 1993. Okay?

Mr. Hinman: Yes, but this is the pre one, I thought, that we're talking about right now.

Dr. Morton: That's right.

Mr. Hinman: On page 202 we're looking at the 2008 actual, $241 million. The estimate for next year is $437 million. I'm just wondering what that debt is and how long those payments are going to go forward on the pre. Then I'd like to get into the post.

Dr. Morton: Well, the reason the pre is going up is because the obligation to start paying it didn't kick in until September of 2009, so for the current fiscal year you've only paid from September through March. Okay? So what's that? Six months? Going forward, you'd be paying 12 months, so it doubles right away.

Mr. Hinman: My question is: what are the next one to five to 10 years going to go up to?

Dr. Morton: I think it would be probably better to give you that in writing. I have a graph here, but it would just be extrapolating off a graph.

Mr. Hinman: I would really appreciate it.

Then let's go to the next real dilemma. I was quite disappointed with our January 30, 2008, deal. I believe I spoke in the House back in 2006, when we had our first surplus, that we should recognize the $4.7 billion that the government owed for their portion of the post-92 deficit to the teachers' fund. The government at that time seemed to think, "Well, that really wasn't a debt, so we don't have to pay it off" as they were mandated to pay off all debt. Then to appease the anger of the Teachers' Association, which I think was justifiable because they never received the actual money, the government signed a contract to cover the next $2.1 billion. I don't see that anywhere. Again, it's my third committee in three nights, so it's kind of hard to get through all of the books, but can you tell me the unfunded liability of the post-92 agreement and the estimated $6.5 billion a year and a half ago?

Dr. Morton: Again, I think it would be better to get that in writing because of the detail.

Mr. Hinman: I appreciate that, and I'll look forward to that, as will Albertans.
I'd like to ask on page 205 . . .

Dr. Morton: Page 205 of which?

Mr. Hinman: Of the government estimates. Sorry about that.
The investment income. We know we've gone through rocky times, but it certainly fluctuated a lot. Again, I guess I'll go back to commenting on your earlier comments that several of the big banks felt that you were conservative in your estimates. I felt that you were very liberal on many of your estimates. Again, with the investment income down I guess I'm just really concerned with the idea. We talk about the sustainability fund. We talk about things rebounding, hoping that we don't see a double or a triple waterfall in the economy. The government has spent a lot of money in different jurisdictions around the world trying to inflate the economy. The stimulus is maintained but hasn't really stimulated.
My concern, Mr. Minister, is very much two years down the road, three years down the road, that in fact we can hope for the best, but I feel we need to plan for the worst. If we run into a second waterfall and then we don't get the speedy recovery that many are believing we might be into, is there a point where you'll kick in with some major cuts? What are those cuts if, in fact, we don't have a rebound in the economy? How far do you feel you're going to go before you're going to change the spending policy that this government has?

The Chair: Hon. members, you've got approximately five minutes remaining.

Dr. Morton: Well, Mr. Chair, I'd point out that our estimates on commodity prices and exchange rates and so forth are basically averages of what all the major banks and financial institutions predict. None of that is certain, but we're in the middle. If anything, as I indicated earlier, one of them said that we were maybe on the conservative, i.e. cautious, side. I think it's sort of an impossible question to say: are you certain? We're as certain as everybody else is, but nobody can read the future in these economic times with absolute certainty. What happens if the economy falls off the cliff again? I don't think this is the place to answer hypothetical questions about what might or might not happen in the future. As I responded earlier, there are not too many choices, and the obvious ones are to reduce spending.

Mr. Hinman: Well, I guess that's my concern, Mr. Minister, that we're spending too much in these tough times, and when the sustainability fund is gone, we're in a very vulnerable situation. It would be better to be making wise and prudent cuts. As has been mentioned here and as I've mentioned in the House with the throne speech and in other areas, we should be extending the infrastructure over a longer period of time to ensure sustainability.
We continue to talk about sustainability and competitiveness, yet if you look at the long-term infrastructure spending, going back even from 2000 to the present time, in 2002-03 there was a drastic cut in that infrastructure spending. It was almost 50 per cent, and it was devastating to the industry. In two or three years again we've continued to buoy up a huge industry, but I don't see how that spending is sustainable. That's the key in all of this: what is the long-term plan? After two or three years of spending that $18 billion, all of a sudden we don't have it. That's going to make a major problem going forward. I would like to see a little bit further extension on that infrastructure plan so that industry realizes and knows: "No. This isn't a two-year plan; it's a three-year. Here's our 10-year plan with sustainable spending." I just don't feel that you're addressing that.

8:15

Dr. Morton: Can I answer briefly? I think sometimes the opposition members make fun of us on our three-year plans. I don't really think you want us to put forward 10-year plans, do you?

Mr. Hinman: Well, you have the 2020 plan.

Dr. Morton: Okay. But that's not with the kind of specific numbers you're looking for here.
In terms of what the plan is, the plan is precisely to avoid what happened after 9/11 and the drastic cuts in capital after that, when all sorts of companies who were geared up to work suddenly found themselves out of work. The idea is to do the savings, which we've done in terms of the sustainability fund, which then allows us to sustain a prudent level of expenditure both on services and on capital during a recession or a downturn. So to say there wasn't a plan I just don't think is accurate.
I think where you could get us, you could be correct in your criticism is if, as the economy moves back into a growth mode and we move into a fiscal surplus, we don't begin to have and then implement and follow a savings and debt repayment plan. Then you would be justified in beating up on us. I think this government is going to have a legislated plan to rebuild the sustainability fund and to repay debt, but if we don't, then you can beat up on us in two years.

Mr. Hinman: Well, I think it'll beat up the Alberta economy more. That's my concern, the sustainable funding. I just see 2002-2003 hitting us three or four times harder than the last time. I think that it's critical that one does have a detailed 10-year plan on the infrastructure need using the matrix that you have, to plan those out so industry knows. This government is becoming infamous for making announcements such as the police academy in Fort Macleod and then it not appearing and saying, you know, "We're going to respect the rule of law," and then passing royalty frameworks.

The Chair: Thank you very much, hon. member. The time allotted for this has been used up.
With that, we're going to move on to Mr. Mason. You have 20 minutes, sir.

Mr. Mason: Thank you very much, Mr. Chairman.

The Chair: Do you want to go back and forth with the minister?

Mr. Mason: Yeah, I'll go back and forth.

The Chair: Thank you.

Mr. Mason: I've been referenced a number of times now. The minister is now using me as . . .

Dr. Morton: I miss you. You're so far away now.

Mr. Mason: You miss me. It's nice to be used as an authority by the finance minister to support his budget. I appreciate that very much. We'll be watching the impact on our credit rating as a province.

Dr. Morton: I was just trying to humour you.

Mr. Mason: Yes.

I want, Mr. Chairman, to talk about the degree to which the province of Alberta has become dependent on nonrenewable resource revenues as a source of its operating expenditures, particularly natural gas royalties, which provide, I think, the lion's share of those resources. I wonder if the minister can tell the committee how much of our program spending is funded by nonrenewable resource revenues and what that percentage is relative to tax revenues.

Dr. Morton: Our rough estimate would be about 21, 22 per cent.

Mr. Mason: Twenty-two per cent. Now, a lot of that is natural gas royalty revenue, which has dropped very dramatically with the price of natural gas.

Dr. Morton: And quantity as well.

Mr. Mason: As well, because of the new supplies that are coming on in the United States – well, the supply has increased significantly, and that looks like it could be if not a long-term situation, then at least a medium-term situation.

Dr. Morton: I agree.

Mr. Mason: When we're in the position where there's a drop in natural gas prices and all of a sudden we have to lay off nurses in the province, you know, there's something wrong with that situation. But I'm more concerned because this will now become a longer term problem, and I wonder if the minister, other than cutting spending, has an alternative. Are there sources of revenue for the province that could offset the loss of natural gas royalties?

Dr. Morton: I guess first, Mr. Chair, I take issue with the assertion that nurses are being laid off because the price of gas is going down. I think we just added $1.8 billion to health care, so I don't think a $1.8 billion increase to health care translates into nurses being laid off.

Mr. Mason: But you get my point.

Dr. Morton: I always get your point, Brian.

Mr. Mason: I'm trying to make the point that we've been thrown into a deficit, and one of the reasons why that's happened is, in fact, a significant drop-off in our natural gas royalties.

Dr. Morton: I think you are absolutely correct in saying that in the short- to medium-term natural gas will no longer play the number one dominant role in government revenues it has over the past decade and a half. So your question is: how do we cope with that on a go-forward basis? Part of the answer would certainly be that – and we've seen it in the third quarter. Our third-quarter report didn't get a lot of attention because it was released on the same day as the budget, but for the first time in Alberta's history revenues from oil sands were greater than natural gas. If you look at, then, the same estimates for budget '10-11, projections for revenues from oil sands are significantly greater than natural gas.

A beginning answer might be that on a go-forward basis oil sands and bitumen will be replacing natural gas as an economic driver in the province and as a source of government revenue. But I'd go beyond that and say that there are still our competitiveness and productivity initiatives, whether it's regulatory review, whether it's the competitiveness report that is expected soon, whether it's our continued commitment to low taxes: all of those are intended to and, I would argue, have the effect of attracting other industry and other business into the province.

Mr. Mason: I have seen, Mr. Minister, longer term projections for oil sands royalty revenue and the long-predicted decline in natural gas royalties, and one does not offset the other, so we're still going to be farther behind.

What I want to come to is the whole question of the flat tax on personal income, which was introduced before my time. The calculations that I've seen indicate that the cost of the flat tax, which predominately benefits people with very high incomes, to the province is about 5 and a half billion dollars in this year. When you compare that with a $4.7 billion deficit, it looks like a very expensive policy. I wonder if you have given any thought to reintroducing a progressive income tax where people who have very high incomes pay a bit more.

8:25

Dr. Morton: No. Obviously, one of the big differences between the government party and your party is that we think that the key to prosperity is to grow the pie by appropriate fiscal policy such as lower taxes, not to try to keep redistributing, carving up a status quo pie. We've seen what your party has done to the economies in Saskatchewan and British Columbia in the '90s, and we don't think taxing your way to prosperity is a particularly prudent fiscal policy.

Mr. Mason: Mr. Chairman, Manitoba is probably one of the best-run provinces in the country, and the province of Saskatchewan under the Romanow government tamed its deficit before Alberta did, so there's a long history of fiscal responsibility.

I don't want to really get into partisan fencing with the minister, but I just want to suggest to him that for middle-income Albertans the personal income tax burden is higher than it is in many other provinces as a result of this flat tax. For example, a family earning a $75,000 income in Alberta pays a higher income tax rate than the same family in B.C., Saskatchewan, Ontario, Quebec, the Yukon, Northwest Territories, and Nunavut.

So the tax burden: it's not a question of whether you tax or you don't; it's a question of who is taxed and who is not fairly taxed. It's a question of fair taxes. I'd suggest to you, Mr. Minister, that Alberta is still the only province that has a flat tax. Progressive Conservative governments in other parts of the country impose progressive taxes, not flat taxes, as do Liberal and New Democrat and Parti Québécois governments in the past. That is the norm in the country. So, you know, to try and portray a suggestion that progressive income tax is some sort of socialist plot I think does a disservice to the truth.

Shall I go on with a question?

Dr. Morton: I would just say the facts speak for themselves. Even both prerecession and during the recession the immigration rate into Alberta has been double what the national average is. Investment continues to be the highest in this province. So if we had a system that was so terrible on middle-class and working-class families, I don't quite see why 40,000 to 60,000 a year over the last decade keep coming here.

Mr. Mason: Okay. Im not going to get into an ongoing debate on that because I have some other questions.

I wanted to ask about AIMCo. In '08-09 it lost 17 per cent on its investments. It's been structured on a private-sector model. One of the things that's happened there – and I've seen this happen before in the city when they set up a corporate model with a board – is that they lose control of their compensation costs because the private sector has a vision of what compensation should be for executives that is just stratospheric and breathtaking compared to government. In the last year the two – just two of them, between them – top AIMCo executives received $5 million in compensation. I'd really like to know how the minister can justify that level of compensation for individuals who are in the service of the people of this province.

Dr. Morton: You're absolutely right that we have set up AIMCo on a model to be competitive with the top performing public and private investment management funds, including funds like Ontario teachers', which, in fact, the head of AIMCo used to work for. If you want to get the highest returns or the best returns on the approximately $70 billion that's managed in the various funds and pension assets in this province, then you have to compete with the private sector. That's what we've done. Was there a loss last year? Yes. Was it bigger than the average or the market loss? No. There have been similar increases this year. Off the top of my head at third quarter I think we're projecting a $2.2 billion increase in value this year, slightly less for next year.

Again, AIMCo's objective is to get an additional 1 per cent above what the market does, and 1 per cent on $70 billion translates into a big premium that more than pays the compensation you're talking about.

Mr. Mason: Mr. Chairman, I'm not sure that the average person would believe that we need to pay millions of dollars in compensation in order to invest public money prudently.

I actually missed a question relative to the flat tax. I wonder if the minister can tell us if there is any cost-benefit analysis that's been done of the flat tax to determine as concretely as possible what its impact is on our competitive position. My understanding of trying to position ourselves competitively is to allow companies to make money or profits, not necessarily to make executives and wealthy people pay less tax. Is there something that you can point to that can concretely measure the benefit of providing this tax relief to the wealthiest Albertans?

Dr. Morton: Again, I'd point out that a person making $100,000 taxable income at 10 per cent pays 10 times more taxes than a person making $10,000 taxable income. So it's simply not accurate to say that the wealthier pay less. In fact, they pay a lot more.

Mr. Mason: No. They pay less than a progressive income tax. That's a little disingenuous, Mr. Minister.

Dr. Morton: Well, it was a little disingenuous for you to say that they pay less.

Again, the issue of whether or not higher taxes leads to greater affluence or societal well-being I think is borne out in practice by what we saw in British Columbia and Saskatchewan, our two neighbouring provinces, in the 1990s, when we had tens of thousands of people who immigrated out of those two provinces to Alberta to take advantage of the more widespread prosperity that was here. I mean, the tax regimes that the NDP governments of those two provinces brought in in those two decades sustained serious economic damage that hurt middle- and working-class families for those decades in both those provinces.

Mr. Mason: I would certainly dispute your historical account there.

Dr. Morton: People voted with their feet and moved here.

The Chair: Hon. members, we've got about three minutes remaining.

Mr. Mason: Okay. Alberta collects less taxes by far than other provinces, and compared to the average share we're the lowest in the nation at 77.7 per cent of the national average. The next nearest is Nova Scotia, which is 99.4 per cent of the national average. There's a huge gap between what Alberta pays in taxes and what the rest of the country has. That's not my point. My point is: what more do we have to do to be competitive on the tax side? Do we have to eliminate taxes altogether for corporations? Just live off of the natural resource revenue? How far are you prepared to go?

8:35

Dr. Morton: Well, I will always defend a low tax regime over a high tax regime as the best for working-class and middle-class families. But to move away from the partisan stuff and look at medium to long term, I think this province does need to address revenue sources other than nonrenewable energy. We could probably continue to live very well, the way we have for the past two decades for the most part in this province, without changing much for another decade or two, but beyond that there are going to be problems. So I would accept your general premise that we need to look at a more diverse tax base, and one of the assignments that the Premier gave me in my mandate letter was to help develop a long-term fiscal plan.

Mr. Mason: I appreciate that, Mr. Minister. I actually agree with that. The problem that we've got here is that we want to maintain and I think Albertans have been very clear that they want to maintain high-quality public services, including health care and education. If we keep spending our grandparents' inheritance to pay for that, then in the long run we are doing a disservice to future generations. I appreciate that you've said that, and I'll look forward to whatever you come up with. I'm sure I'll have some comments at that time, but I appreciate your being here tonight.

Thank you.

The Chair: That's it? Okay. Thank you very much, Mr. Mason.

With that, we're going to move on to Ms Teresa Woo-Paw. You've got 20 minutes.

Ms Woo-Paw: Thank you, Mr. Chair. My first question is on page 134 from the business plan. It states that your ministry is committed to working with other ministries to assess the cost drivers underlying major government programs and services in order to achieve more effective fiscal planning. I have three questions under this theme. I'll state my questions, and then you can respond to them. What would be involved here? Secondly, what strategy or strategies do you intend to employ to achieve this? Thirdly, will there be added costs incurred to achieve this?

Dr. Morton: I apologize. I was looking at something and not listening to the questions. Could you repeat them for me?

Ms Woo-Paw: Okay. What would be involved in achieving this intent? Secondly, what strategies do you intend to employ to achieve this? Thirdly, will there be added costs to do this? I think it's a great idea. I'm just wondering how you intend to do it.

Dr. Morton: I think it's the intent of Bill 1, the competitiveness act, to address this issue. There is no budget for Bill 1. It's anticipated that it'll be a cross-ministry initiative. We know that, for example, in the past three years we've seen competitiveness studies done in SRD with respect to forests, the FISC report, we've seen a competitiveness review done in agriculture, the new ALMA initiative, and we're just now getting the results of the competitiveness review in the oil and gas sector. So there are any number of initiatives that have already been done or are under way that we can draw upon. We'll work with other ministries to identify what those have been and develop a go-forward plan, if you would.

Ms Woo-Paw: Okay. The financial security and independence of our increasing number of retired citizens is very important to our province. How will you make it more attractive to start new types of pension plans in Alberta?

Dr. Morton: That, as you know, is one of the mandates that the Premier has given me as well. The issue of income security for retired persons has been a subject of negotiation and discussion with B.C. and Alberta for a number of years now. At the same time that B.C. and Alberta have undertaken this discussion, the federal government began to address the same issue. At the moment there is a federal-provincial task force that is going to meet this spring to make some suggestions as possibilities. We'll obviously look at those.

I think the key thing there is that we're going to have to weigh the advantages of public-sector versus private systems, either through insurance or savings incentives. Also, we want to make sure that whatever Alberta participates in, it does not have one of the features of the CPP, the Canada pension plan, which not by design but by effect basically transfers significant amounts of Albertans' money out of Alberta into other parts of Canada. In other words, it's a de facto transfer program. For any new pension or savings program that we would undertake, I think one of the criteria it would have to meet is that it does not result directly or indirectly in some sort of transfer of funds out of Albertans' pocketbooks.

Ms Woo-Paw: Any idea how much these initiatives might cost?

Dr. Morton: In the various plans that have been looked at, costs have not been determined, but I think I can say with a high degree of confidence that the costs would not be borne by taxpayers. It would be either through a pension program or through savings incentives, tax incentives for private savings. It would be paid by individual participants, employers, and employee contributions.

Ms Woo-Paw: Moving on. Page 205 from the estimates. Most ministries are reducing their administrative costs. Why is there an increase to your ministerial support services?

Dr. Morton: Do you have a line reference on that?

Ms Woo-Paw: It's page 205 under expense, program, seven lines down, ministry support services.

Dr. Morton: It's what's called an interallocation chargeback from AIMCo, so it's quite technical. I suggest we'd probably get you that in writing.

Ms Woo-Paw: Sure. Okay. Also from the estimates, page 199. Almost $20 million is budgeted for enterprise, which includes the ministry's work with the development council and development authority, et cetera. I'd like to know what measurable benefits have been demonstrated from previous years for your ministry to invest this level of money in this area.

8:45

Dr. Morton: I don't see in my notes a direct answer to that question, so let me again get it to you in writing.

Ms Woo-Paw: Okay. Well, I'm sure they do very important work. I'm just wondering whether, you know, some measurements have been taken.

Dr. Morton: That's right.

Ms Woo-Paw: Okay. My last question is on page 139 of the business plan. I'm just wondering, from your perspective, how effective you think strategy 3.2 has been, which is the work of Productivity Alberta to help other ministries and business and industry to maintain or enhance their global competitiveness.

Dr. Morton: Again I don't have concrete data, I believe, on that particular subject. I have a couple of things here, though. I actually had the opportunity to speak with one of the businesspeople on that Productivity Alberta project, and he is certainly very enthusiastic about it. He says that in his own company they've averaged growth over the last three years of between 15 and 20 per cent a year for three years using some of these tools. They have opened a website just recently that has a productivity tool on it, sort of a self-administered test that a business owner can go on and apply to their own business. It also links to Business Link, which is a part of western economic diversification. There are lots of signs of success of that program.

Ms Woo-Paw: Thank you.

The Chair: Okay. Thank you very much.

With that, we're going to move on to Mr. MacDonald. You have 20 minutes, sir.

Mr. MacDonald: Thank you, Mr. Chairman. I appreciate that.

The Chair: And you don't have to use all of them if you don't want to.

Mr. MacDonald: Well, Mr. Chairman, maybe there are other members.

The Chair: There is a lengthy speakers list if you, you know, would like to keep it brief and short. That goes for all of the hon. members, please.

Thank you.

Mr. MacDonald: Okay. Then I'll ask these questions and cede the floor to a colleague. On page 20 of the fiscal plan under allocations for various ministries for 2010-11 operating costs there is an increase of 2.2 per cent, or $2 million, for elections preparation. Can you give me a breakdown of what that money is going to be used for, please?

Dr. Morton: I'd speculate that some of it might be for the boundary review commission, but that's speculation, so I think I'd better get you that answer in writing.

Mr. MacDonald: I would appreciate that. I hope they're not going to spend $2.2 million.

Dr. Morton: No. I said part of it.

Mr. MacDonald: Part of it. Okay. I appreciate that.

Also, in the ministry business plan there is a table on page 134. The plan states that

> the government will continue to maintain a fair tax system that promotes self-reliance. The ministry will continue to monitor the competitiveness of our tax system within Canada and globally, and will continue to strengthen its proactive strategies for tax collection, compliance and encouraging voluntary compliance.

What exactly is a tax system that promotes self-reliance? What does that mean?

Dr. Morton: I would say that the concept of citizen self-reliance is one where, other things being equal, citizens are expected and encouraged to take care of themselves rather than have the government take care of them. It's a society of independent and freer individuals than, if you like, the citizens in a nanny state, and taxes are a very important part of that. If Albertans and Alberta businesses paid the average of the other provinces, that would be an increase from a low of $2,800 to a high of $4,900 more in taxes per person per year, or $10.3 billion of taxes each year. We think that $10.3 billion stays in the pockets of individual citizens, and they know how to spend it better than government knows how to spend it. That's what self-reliance means.

Mr. MacDonald: My last question, Mr. Chairman, to the minister of finance in this round. If I could have my name back on the list, I would appreciate it. You had a definition there of a nanny state. When a state or a jurisdiction or a province like ours owns its own bank, as we do the Alberta Treasury Branch, do you consider that a nanny state?

Dr. Morton: No. I think the Alberta Treasury Branch is, obviously, deeply rooted in Alberta history. When the big chartered banks during the Depression didn't want to do business, particularly in smaller, rural communities, Alberta Treasury Branch came into being. The same people and the same governments that brought the Alberta Treasury Branch into being thought that people were happiest when they didn't have to depend upon government for their day-to-day security. They're happier and freer depending on themselves than they are on government.

Mr. MacDonald: I appreciate that, and I'm still waiting for that order in council that you told me that I could have. I don't have time to read it now.

The Chair: Thank you very much, hon. member. I appreciate it.

With that, Mr. Fawcett, you do have 20 minutes, but there's a long speakers list. Thank you so much.

Mr. Fawcett: Thank you, Mr. Chair. It's a great pleasure to be asking my former university professor some questions. I know that he graded me hard on some papers, so I'm hoping to return the favour. Maybe I'll give him a grade after this. I'm not too sure.

I have a couple of issues that I just want to talk briefly about and explore with the minister. The first one is on line 4 on page 197 of the estimates. We notice that there's an increase for investment, treasury, and risk management. I'm just wondering how these dollars are going to be allocated between these three different aspects.

8:55

Dr. Morton: When I gave you tests, you didn't have three people feeding you answers, I hope.

I think we'd better get you that in writing. There are three different divisions. There's AIMCo, risk management, and treasury management, but the details aren't jumping off the paper here, so let us get you that in writing.

Mr. Fawcett: Sure. Okay. The next question that I wanted to ask. Obviously, through the throne speech and the budget and the introduction of Bill 1, the Alberta Competitiveness Act, making sure that Alberta is the most competitive jurisdiction in North America to do business in not just for the energy sector but for all businesses, I'm just wondering if you can shed some light on how your particular budget for your ministry is going to help Alberta emerge from the economic recession as an economic leader not just in our country but right across our continent and across the world.

Dr. Morton: Well, we've mentioned Productivity Alberta already, which is a fairly specific program targeted at small- and medium-sized businesses which has enjoyed a good track record to date. On the broader scale of competitiveness I would argue that our tax regime, the flat tax and personal taxes and the lowest corporate taxes, the fact that there's no sales tax, no capital tax, no payroll tax: all of those have contributed to present and future competitiveness and prosperity. The efforts that will be undertaken pursuant to Bill 1 on productivity: we'll canvass those advantages and also look at sector by sector – agriculture, forestry, energy, oil and gas – and identify specific competitiveness opportunities there and then try to identify commonalities that would address competitiveness across the board. I guess regulatory review and the regulatory review initiative would also be part of that.

Mr. Fawcett: Thank you. I think a lot of the discussion that we've had tonight has focused around taxes and various ways of taxing and different tax rates and that sort of thing. I certainly would agree with most of what the hon. minister has put forward. We need to make sure that Alberta is a culture of self-reliance and that our tax rates are low. I would suggest that the hon. member that's not here, the leader of the fourth party now, I guess, needs to brush up on his economics classes because the evidence of having a low marginal tax rate is overwhelming. I don't even know why that party or certain people would want to even go there.

In that conversation, Minister, you did indicate that we might have some challenges moving forward around revenue generation and taxes. In your answer to me you just listed a number of advantages that we do have right now. How do you plan on marrying that as we move forward, you know, not having a sales tax, having low corporate tax, knowing that our tax system right now might not be sustainable in 10 years?

Dr. Morton: Well, that will be a conversation or an undertaking that we'll do in caucus. There are studies out there already that identify the fact that certain tax sources, certain tax bases like property tax, like sales tax, don't have the volatility that nonrenewable energy taxes have. The question is whether or not you can blend those to have less volatility and still maintain the competitive advantage that we've talked about. I think that's the kind of discussion we'll be having. I would stress that that's looking at a long-term fiscal strategy. That's not something that we're looking at over the next five years.

Mr. Fawcett: Sure. I certainly appreciate that answer. I think, again, that when we look at some of the things, you know, it's pretty well known, particularly here in North America, that 25 per cent of the highest income earners or around that – these are approximate numbers – pay about 80 or more than 80 per cent of the overall taxes to government treasuries. So the comments or the rhetoric by, again, the leader of the third party I don't think is based in facts and is very concerning.

I just have one more issue that I wanted to explore. It has to do with our savings accounts. I would like to know if the minister feels that the two savings accounts that we have, the heritage savings trust fund and the sustainability fund, have served us well. You know, a couple of years ago we did have a capital account, and that was changed and all rolled into the sustainability fund. Moving forward, does he anticipate the establishment of another capital account, and what might be the benefits or drawbacks of doing that?

Dr. Morton: I might first address the heritage trust fund as a savings account. I can give you some specifics on that. In terms of over a five-year period of annualized average returns, as of September 30, 2009 – that would include the years of economic growth and prosperity but also include the first year and a half of the recession – the heritage fund annualized return was 5.2 per cent over that period whereas for comparative funds, the Norwegian pension fund and the Alaska permanent fund, their annualized returns over that five-year period were 4.1 per cent and 4.5 per cent. So the heritage fund did outperform its two analogous counterparts over that five-year period.

9:05

Within Canada you could compare the heritage fund with the Caisse de dépôt in Quebec or the Ontario teachers' pension and the Ontario municipal employees' plan. This is a slightly different period. As of December 31, 2008 – so this would have been at the early stages of the recession – the losses to Ontario teachers' and Ontario municipal employees' were 18 per cent and 15.3 per cent respectively. The heritage fund had a loss of 15.9 per cent, so it was about the same as one and lower than the other. These types of comparisons are difficult to make, but with that caveat I think that the heritage savings trust fund's performance has been respectable.

In terms of going back to a separate capital fund, separate from the sustainability fund: was that the second part of your question?

Mr. Fawcett: Uh-huh.

Dr. Morton: While it has a certain obvious appeal of segregating capital spending from operational spending, which I support and you support and I think almost everybody in our government supports, in terms of how that actually works inside the general revenue fund as a practical matter was problematic. It limited flexibility. So there was that concern. Then there was also somewhat of a concern that if the capital account sits there by itself, it acts as a stimulus for demands for capital. In other words, it makes it harder for us to say no when we should be saying no. If you have something called the capital account and it's sitting there with $7 billion or $8 billion in it, people say: well, why are you saying no? I think those are questions that we can go back and revisit, but there were reasons why the decision was made a year and a half ago to fold those into a single account, the sustainability fund.

Mr. Fawcett: Well, I really think that's an important distinction. If you look at the overall budget that you delivered – and there have been many talking. I know that the Member for Edmonton-Gold Bar is very concerned about the deficit and whether that's sustainable or not, but the simple fact is that on the operating side we're running a surplus, if you take away capital investment. We talk about how people run their normal finances. People do take money, you know, surplus money from their operating accounts and put them into short-term savings accounts, whether it be for repairs to their houses or building a new fence or putting a new roof on their house. If you have to build a house or put a new roof on your house and that total expenditure exceeds the amount that you're bringing in plus your operating costs, I don't think people are too concerned that they're running a deficit. That's something that they've been planning for, obviously.

That's why I asked about that distinction. I think it's very important that Albertans do know that this deficit is being paid for by money that's in our savings account, and it's going into capital investments that are going to provide direct benefits to Albertans for many years to come, not just in this current fiscal year. So that's why I asked that question.

I just have one further question, Mr. Chair, and it has to do with page 198, line 1.0.4, under ministry support services. That's the communications line. We've seen a decrease from last year. I know that the minister mentioned earlier about some costs in advertising for the capital bonds. I did hear back from some constituents that were quite happy with our budget but were concerned that they had heard radio advertisements about the budget. I'm just wondering how much in that line is being spent on media advertising.

Dr. Morton: These are approximate figures. There was about $112,000 spent on advertising for the budget and approximately $500,000 spent on advertising for capital bonds. None of that was television. It was radio and print, which are much less expensive than television. The communications strategy on the bonds side was that we would reach 85 per cent of our target audience, which was primarily people 35 and older that were moving into a savings mode in their personal financial planning.

Mr. Fawcett: Thank you, Mr. Chair. I have no further questions. I'll cede the floor to somebody else.

The Chair: Thank you very much.

I guess we will move on to Mr. Hinman.

Mr. Hinman: Thank you, Mr. Chair. It's, again, always interesting to listen to the dialogue and, I guess I want to say, the pendulum as it swings back and forth.

I want to go back and focus a little bit again on the true deficit, looking at what we're actually spending versus what's actually coming into the treasury. We estimated it at around $7.5 billion, but to add to that – and you answered a little bit, but I just want to ensure that I'm getting the rest of the pensions.

We've talked about the teachers' pension plan pre and post '92. I'm concerned that on page 197, the financial sector and pensions, line item 5 for program expense is going from $7.9 million to $9 million and line item 5 for equipment/inventory purchases is going from $250,000 to $340,000. Again, I'd like to know the future costs of those pensions, but even in more detail. What are all of the unfunded liabilities and funded ones of pension plans going forward?

We're always talking about an aging workforce, and I'm just concerned, along with the teachers' as well as all the other pension funds: what are those costs coming forward to the Alberta taxpayers? Are we going to be able to meet those, or are we eventually going to get to the point, as I've said earlier, where we're not going to be able to sustain the spending because the sustainability fund is depleted and the income hasn't returned?

Dr. Morton: What was your reference again?

Mr. Hinman: Page 197, line 5 under program expense and then line 5 under equipment/inventory purchases. We have financial sector and pensions showing up on both of those.

Dr. Morton: Now you're down under capital costs. You started off on line 5, financial sector and pensions, but those were program costs. That's not actually pension. Then the other one you just went to is line 5 under equipment/inventory, which is capital.

Mr. Hinman: Yeah. I'm just wondering, though, why the program expenses are rising significantly in both of those areas.

Dr. Morton: Well, again, if you go from the '10-11 estimate of $9 million to the '09-10, it actually goes down.

Mr. Hinman: Well, I guess if you look further to the right, though. This is the problem, that we're just looking at a snapshot when last year you had an unbelievably high deficit spending.

Dr. Morton: So you're going back to 2008-09.

Mr. Hinman: Correct.

Dr. Morton: Okay. Why don't we get you that in writing?

Mr. Hinman: Okay. I would appreciate that.

Dr. Morton: I might, if you'll let me, correct one thing about your party's estimate of our true deficit and about not accounting for capital expenditures.

9:15

Mr. Hinman: Well, I said: actual revenue versus expenses for the whole year.

Dr. Morton: Yeah. But this was a point that I think one of your colleagues made in question period. I guess I'd draw to your attention and would like to get on the record and would make available to you that I told you there are a number of banks, financial institutions that have looked at our budget and commented on it.

I have here the TD Bank Financial Group Alberta budget analysis published on February 10. On page 2 of that, when they talk about the difference between capital grants and capital expenditures, the footnote there states:

> The accounting of a provincial government's capital plan rightly splits outlays into "capital investment" [as distinct from] "expenses for capital purposes." The latter are capital grants to subordinate governments (i.e. municipalities) or outlays on planning that are not capitalized in an ultimate . . . asset. These are included fully as government spending in the year of the expenditure.

Which we do.

> In contrast, "capital investments" are booked as government-owned assets and the investment outlay is amortized over the life of the asset. "Capital investment" is rightly excluded as an expense in the year that it is booked.

I understand what you and your colleague are getting at, but your argument isn't with us. It's with the accounting profession. I'd be happy to make this available, third-party confirmation that the way we record capital expenditures is accurate and the accepted norm in the financial community.

Mr. Hinman: We don't take exception to that, to the way it's recorded. What we're talking about is the actuality of the debt versus the revenue, the expenses that the government is spending versus the revenue. There's a $7.5 billion deficit this year. To follow your line of thinking, then, if I might make sure that I'm understanding this clearly, by spending money, we're actually going to, as I say, grow ourselves out of this deficit.

We talked earlier, and we both agreed that taxing ourselves out of this deficit position isn't a good option. There are some that feel that that's the way to go, but I think the majority of Albertans and those of us here feel that, no, we want to keep taxes low. We want to attract capital. But if we're in fact spending on assets, why don't we build a high-speed rail, then, from Edmonton to Calgary? Let's spend billions of dollars because we can declare them as assets. Then are we going to be fiscally responsible and be in a great position because we've spent multibillion dollars on assets? It's the opposite end of the scale, and it causes the same problems. We can't spend our way out of a spending problem.

Dr. Morton: If I might, what I'm saying and what TD Bank Financial Group is saying is that if you borrow a hundred thousand dollars to buy a piece of property, that's a good investment. If you borrow a hundred thousand dollars to go on a wild trip around the world, that's a bad investment. One has an asset, and the other just goes up in smoke.

Mr. Hinman: But you don't borrow money in a business when it's not going to generate the revenue to pay for that new asset. We're spending money that isn't going to generate enough to cover the cost, in my opinion and that of many other people that have read your budget.

We talked a lot about stability, and again I want to go back to the mixed messages. You've talked about wanting to increase the economic pie. We agree on that. But a very late in delivery competitiveness report, that originally was promised for late October, early November '09, has still failed to come to light in the public. The drilling season is going to be over soon. It just seems like they've gone over. Again, would you consider, then, growing the pie by raising the royalty tax, by breaching those contracts that we had with the oil and gas companies? I'm very concerned that when your competitiveness report comes out, it's going to fall short again and that you're not going to recognize those important principles of the economy to get it back on track and growing.

Dr. Morton: Well, I'll give you a bit more of a technical answer and then a practical answer. In terms of competitiveness, obviously, fiscal and tax regimes are one factor, but so are innovation and productivity, so is infrastructure, something we have invested in, so is regulation, and so are labour force and training. It's not just about taxes.

In terms of the competitiveness report with the oil and gas sector, they've been very clear that they would rather see us get it right than get it out early. The previous minister and now the new minister have worked, have taken the time to get it right, and have resisted the impatience to get it out early. It's been received since the budget was released. It's being looked at now, and there will be a government response in the near future. So it's coming.

Mr. Hinman: Well, they've been waiting a long time, and getting it right is a real concern.

I guess another principle I want to go back to is trying to get the spending under control, and I hope that, again, you'd like to adopt some of these policies that the Wildrose has been proposing for some time. It seems like we have a real problem with saying that we can't make any cuts. In business perhaps one of the most important things when you go to a line item and you look at it is what we call zero-based budgeting. Perhaps it would help the different ministries if you were to present to them zero-based budgeting rather controlling the spending. Have the minister and cabinet talked about actually taking a real step back and saying, "Let's look at it from the first line to the last line" and having to justify every spending?

Dr. Morton: Well, I would point out again, Chair, that it's not the case that we haven't done any budget cuts. We saved $430 million through budget reductions in the current year, '09-10, and we identified and have made $1.3 billion worth of budget reductions in the '10-11 budget. As I said earlier, 15 of the 23 ministries will have less money in '10-11 than they had in '09-10, so it's not accurate for the hon. member to say that we don't know how to cut spending or find efficiencies.

Mr. Hinman: I don't believe I said that. I will check in *Hansard* later.

Are you looking at zero-based budgeting going forward to restructure the different ministries and the costs? It just seems like the management – it's just unbelievable with the cabinet policy committees that are going out there. We've got the health superboard. Then we have another committee going around locally to check on it. It just seems like we're adding to the bureaucracy and the management, checking the checkers, doing the same with people with developmental disabilities. Many times they've gone out and have actually checked and said that the assessments are right, yet we're rehiring and training to reassess all 9,000 people in that category. It seems like we're just speeding up the treadmill, trying to keep things going. In fact, like I say, would the minister consider zero-based budgeting throughout the government?

Dr. Morton: I'd have to take a closer look at it and get a little more familiar with the concept before I could answer that question.

Mr. Hinman: Okay. I guess my final question I'd like to ask, then, is on the total pension plans. It is the responsibility of your ministry to know what they are going forward for the next five and 10 years, what those are going to be. Like I say, the unfunded liability of the teachers is huge, but we'd like to see the rest of those pension funds and what those costs are going to be going forward.

Dr. Morton: I think I committed to providing that.

Mr. Hinman: Well, on the teachers you were, but I wasn't sure on the other ones. There are about five pension funds, I believe.

Dr. Morton: What specific information would you like?

Mr. Hinman: Just what the actuaries are showing the costs are going to be going forward. They seem to be escalating quite quickly, but we don't know, you know, what they are, so we'd like a little bit further long-term view of what the pension costs are going to actually be.

Dr. Morton: Let us get that to you in writing. Some actually drop off quite quickly.

Mr. Hinman: That will be good news.

The Chair: That's it, Mr. Hinman?

Mr. Hinman: Yes.

The Chair: Thank you so much for your consideration.

We've got one more speaker here. Mr. Marz, you're good to go for the next couple of minutes.

9:25

Mr. Marz: Well, thank you, Mr. Chair. In light of the fact that I only have a few minutes, I guess I'll be brief.

Hon. Minister, both the heritage trust fund and the sustainability fund are huge sources of pride for Albertans because they know that it puts us in a very enviable position in Canada and puts us amongst a very exclusive club world-wide as far as good, sound fiscal policy goes of having funds that we've set aside in good times to be able to get us through the bad times. It's a pretty simple fiscal principle, and many Albertans that have become successful over the course of their lives have employed this very simple principle. With the last recession there are a lot more Albertans that wish they would have employed the same type of principles.

Your ministry is responsible for investment of the government's funds, and you get advice from the Alberta Investment Management Corporation. What strategies does AIMCo use in assessing the risks to their investment portfolio? Have they modified those strategies in light of the recession since '08, and if so, what percentage have they looked at in less high-risk investments for those funds? We can start with that one, and we'll go back and forth.

Dr. Morton: The AIMCo strategy is not per se a strategy of investing in more risky or less risky. That's not the kind of analysis or frame they use. It's a sophisticated risk system that looks at portfolio risk, including capital pools. They have dozens of different pools, 60 pools, each with different risk profiles.

Mr. Marz: Kind of like a mutual fund type of thing on a larger scale.

Dr. Morton: Yeah. I think that would be analogous to a mutual fund, and they model the risk of those pools, not just the risk of individual securities. I think that's the technical answer to your question.

Mr. Marz: Okay. I'll carry on to the next one. We've heard that AIMCo is 1 per cent above what the market performed, but the market performed at a loss position, so I'm assuming AIMCo's investments were less of a loss but still a loss. Could you comment on what the current book value is of the heritage trust fund compared to early '08 and which way it is currently going?

As well, the sustainability fund: $17 billion seems to be almost synonymous with the sustainability fund. Every time I hear somebody say "sustainability fund," you hear $17 billion, but last year's budget budgeted $4.7 billion out of that fund. If we used up that whole $4.7 billion, the fund would currently be sitting at roughly $12.3 billion. If we're looking at another $4.7 billion out of it this year, by the end of this current fiscal year we would be down to roughly $7.6 billion. Are we going to modify the way we talk about the fund to make sure Albertans are aware of the current value of the fund based on the current budget so there is not an increased expectation that $17 billion remains the same even though we have used some of that money in each of the three projected years that we're going to be looking into – $4.7 billion, $4.7 billion, and, I believe, $1.1 billion – which by '12-13 would bring it down to $6.5 billion? Are we going to kind of modify the way we talk about that fund?

Dr. Morton: If I could talk to the heritage savings trust fund first, the fair market value on September of '09, five months ago, was 14 and a half billion dollars.

The Chair: Thank you very much, hon. members. I apologize for the interruption, but your allotted time has been used up. Thank you very much.

I would like to thank everyone for being here today.

Mr. MacDonald, you've got a quick question?

Mr. MacDonald: Yes, I do, Mr. Chairman. There were a lot of answers to be provided in writing by the minister to various members of the committee this evening. I was wondering if there was a time frame that we could expect those written answers to be provided to us.

The Chair: Well, I think right at the beginning of the opening comments, Mr. MacDonald, he has the option either to provide them through the Clerk or table them in the House, so that's his option.

Mr. MacDonald: But the time. When are we going to see this tabling? Is it going to be in the third year of the business plan, or is it going to be in three weeks? That's a reasonable question.

The Chair: Fair enough. He'll answer that.

Okay. While he's thinking about the answer, I'd just like to remind the committee that our next scheduled meeting is Tuesday, March 9, to consider the estimates for Advanced Education and Technology.

If the minister could answer that.

Dr. Morton: Two weeks from today.

The Chair: Thank you very much. Pursuant to Standing Order 59.01(2)(a) this meeting is now adjourned. Thank you, guys. Good night.

[The committee adjourned at 9:32 p.m.]

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