

10:34 a.m.

Monday, September 20, 2004

[Mr. Hutton in the chair]

The Chair: Good morning, team. Welcome to the Standing Committee on the Alberta Heritage Savings Trust Fund. As our tradition goes, we will go around the room, and if everybody could introduce themselves, we will begin.

[The following members introduced themselves: Mr. Bonner, Mr. Broda, Mr. Hutton, Mr. Marz, and Mr. Melchin]

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

Ms Sorensen: Rhonda Sorensen, communications co-ordinator with the office of the Clerk.

[The following departmental support staff introduced themselves: Mr. Bhatia, Ms Forbes, Ms Housdorff, Mr. Orcheson, Mr. Pappas, Mr. Shepherd, and Mr. Stratton]

[The following staff of the Auditor General's office introduced themselves: Mr. Hug and Ms Ludwig]

The Chair: Thank you very much, all. You, I assume, all got your packages in time for this meeting. Good.

Before I ask for approval for the agenda, I guess that this will be our last one, gang. We've got a couple of people retiring. I hope you have a good one, Bill, and all goes well, and I hope I see a helluva lot of you, Dave. Oh, are we allowed to say that?

Mr. Broda: Well, you just did.

The Chair: I just did. We don't have a 10-second delay?

Anyway, this group will not be getting together again – there will be a new one, I assume – unless, of course, the election is in March. It's been great fun.

Could I ask for a motion that the agenda for the September 20, 2004, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated?

Mr. Marz: Mr. Chairman, last time we asked for an update on the inflation-proofing, and since the debt is now effectively paid off, it may be good to include in this agenda another update on the strategies for inflation-proofing.

The Chair: Go ahead. Feel free.

Mrs. Sawchuk: Mr. Chairman, we did have some discussions with Revenue staff. That is an item that's still outstanding, one that they're still working on, so that's why we didn't include it on the agenda.

Mr. Marz: Okay. I would hope to see it on the first one when we return.

Mr. Melchin: I'll be happy, once we get into our first quarter, to talk about that too.

Mr. Marz: Okay.

The Chair: So not to amend it, but the minister is prepared to address an update in his remarks.

Mr. Marz: Then I would approve it as is.

The Chair: Thank you. All in favour?

George has just arrived. Do you want to say hi?

Mr. VanderBurg: Good morning. George VanderBurg, MLA, Whitecourt-Ste. Anne.

The Chair: I also need approval of the minutes of June 16, but there is a slight adjustment, and I'd like you to take a boo at it at the bottom of page 2. As soon as I find it . . .

Mrs. Sawchuk: Mr. Chairman, the change is at the very bottom. "Mr. Dunn, Auditor General, advised that his office's audit opinion would be unqualified and included."

The Chair: Instead of "rendered."

Mrs. Sawchuk: Instead of "rendered." That's the only change.

The Chair: Could I have a motion, then, that the minutes of the June 16 meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated and revised?

Mr. Broda: So moved.

The Chair: Okay. Thank you.

Now we get down to the fun stuff. First Quarter Update 2004-05 Quarterly Report. I will now ask the Minister of Revenue to tell us what's happened.

Mr. Melchin: Thank you, Mr. Chairman. I'm delighted to be able to report again to the committee on the Alberta heritage savings trust fund. Markets obviously haven't been as strong this year as last year, which was probably a correction to the previous years, so declines in many respects, but we still look very optimistically at the heritage fund.

We are actually forecasting an increase in investment income for the year. Part of that still is that when you look at the fair value of the fund, be it \$12.4 billion at year-end and \$12.1 billion at the end of the first quarter, the cost basis is still about \$11.5 billion. So one of the great measures is to ensure that the fair value of that fund is above that. So as you're trading your stocks, you're starting to realize some of those gains over time, and that's partially what's happening this year. We expect also some growth to continue in those markets, but our real message continues to be to diversify the portfolio. It's impossible to predict the timing of growth or declines certainly in the equity markets.

The heritage fund is here for the long term, and I'd have you reflect, if you go back to page 3 of the report, that the investment asset mix is one of the key questions we decide in this committee. You can see how we continue reducing our exposure over time to Canadian equities, down to 15 per cent; we're at 21 per cent presently. We are going to increase the real estate, up to 10 per cent; we're at 7.9 per cent. We're gradually getting there. Absolute return strategies will increase to 7.5 per cent from the 5 per cent of last year. So over time we're continuing to gain the level of, I'd say, expertise and sophistication in diversifying the asset mix. That will help us to both manage the risk component of the fund and also attempt to maximize the return of this fund.

10:40

We're pleased that this year, over this quarter, from the fund itself

we've transferred to the GRF \$328 million. The increase in fair value of the fund's investments, totalling \$74 million, was offset, though, by the transfer of \$328 million, which is why the fair market value is down to \$12.1 billion. I wouldn't personally get too hung up on the fair market value of the fund. It's going to forever go up and down, and it also depends on when we realize our gains and losses in many aspects. The fund continues to perform well, and it produced over \$26 billion of investment income over the life of the fund.

With respect to one of the questions raised already, the key timing of policy decisions about the inflation-proofing, which I said that I'd be happy to address, by policy, actually, we have in legislation that it's required to inflation-proof the fund once debt is repaid. We are asking to be clear on that at this stage with Finance as to: what point in time does that actually mean? Probably next year, I suspect, because we haven't yet transferred the monies and repaid the debt in full. That's a forecast for the remainder of this year. So that event hasn't yet happened but is imminent.

One other key parcel of information that will be coming back relates to the It's Your Future survey. That does have questions about: what would you do with post surpluses? It does have some broad questions with respect to the Alberta heritage savings trust fund. We've always been a government that said that we would consult Albertans about the fund and its purpose and its mandate. That said, I'd be quite surprised if Albertans wouldn't come back and say: let's maintain that fund for the future. Every time we've asked that question, they've said that in different forms, and it will still be my recommendation as we go forward that postdebt we do inflation-proof the fund as a starting point. Whether it requires or has a mandate beyond inflation-proofing would be part of a follow-up to the It's Your Future survey.

So we won't have the ability to state the decision at this stage. That'll come forward in next year's budget planning. It'll certainly be presented, as far as I would say from our department's perspective, that debt having been repaid this year, if that's the eventuality, we would recommend that it be inflation-proofed for the following year and the following three years in the business plan and perpetually. That will certainly be our recommendation. That's part of the business plan. It's part of the follow-up of It's Your Future and part of all of our collective decisions to make at that point in time.

Given that, I'd be happy to entertain any questions on the first quarter or even on the inflation-proofing question.

Mr. Bonner: On page 2, Greg, "The Heritage Fund accounts for its investments on a cost basis." Would it not be more prudent to transfer the investment income on a fair value basis to the general revenue fund instead of on a cost basis?

Mr. Melchin: You know, there's a whole host of work yet being done, I suspect, and the Auditor General's office may want to talk about the cost versus fair value accounting. That still is something where we'd be following accounting principles, to which it has not yet been adopted on that basis. I might throw that back to the Auditor General for that comment.

Mr. Hug: Yeah. Under the current accounting guidelines the fund should follow the historical cost accounting format for the accounting principles. You know, coming down the road, there are changes looming, which I believe would allow the fund to carry its investments at fair value, but that's not presently what the guidelines are allowing.

Mr. Melchin: The other problem with that, I would say, is that you

add more volatility to your overall surplus or deficit position just on the basis of markets we know are going to be volatile. Since this fund is supposed to look down the road and be a long-term investment, do you want your current year's income to be so drastically affected by the day-to-day changes in fair market value, which may not be the long-term perspective of the fund? It is only the day or the quarter or the one year, which is a very short snapshot of a window. So that's part of it. I know that the challenges are being debated among the accounting principals at this stage. Presently, though, we will continue to follow, you know, generally accepted accounting principles as they're defined.

Mr. Bonner: One more?

The Chair: Yeah. Sure, Bill.

Mr. Bonner: Good. Thanks, Drew. Also, Greg, could you please provide the committee with a year-by-year comparison of the fund's per capita real value from 1976 to the present?

Mr. Melchin: We'd be happy to provide the answer to that.

I might say this though. Clearly, it's been \$12 billion since about the early '80s and hasn't changed as such. So we know that that per capita value, then, has continued to decline as the population has increased. Therefore, it doesn't give you the full picture of what it's done to help grow a lot of other things. There's been \$26 billion transferred to general revenues that have helped build the province. So maybe it hasn't built a financial asset, but it's helped build the province in very substantial ways. Whether you say that that's a contribution to health, whether it's a contribution to the roads, the hospitals, or the schools, repayment of debt, it's helped the balance sheet of the overall province substantially.

I'm happy to provide that picture of the per capita, but I would say to you that it'll be a misleading answer as to what the contribution of the heritage fund has actually done and its value in building the province over that period of time. The value of what else the \$26 billion has contributed to the province should be taken into consideration and how that's added to whatever values, be it capital assets or even providing services that Albertans would wish. But we will certainly supply you the answer.

Mr. Bonner: Thank you.

The Chair: Great. Through the clerk, and that would be greatly appreciated. Thank you.

Any more questions?

Can I have a motion that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the first-quarter update of the 2004-2005 quarterly report as distributed.

Bill. All in favour? Thank you.

Now we move to item 5, which is the 2004 annual public meeting in Redwater. We are looking forward to a fun-filled, action-packed day in Redwater, capped off with the annual general meeting of the heritage savings trust fund. I'm going to turn it over to you, Dave, to just give us that update if you wouldn't mind.

Mr. Broda: Thanks, Drew, certainly. We're going to be very pleased to have you all in Redwater on the 5th of October. So far everything's been booked as far as locations. At noon, if we're all going to be there, I've booked a backroom at the Rainbow Restaurant, which is a Chinese restaurant. At 1:30 in the afternoon – I didn't anticipate; however, it did come up. We have a new RCMP

detachment in Redwater, and they're having their grand opening. So they'd be very pleased to have all of you at the opening. I certainly would want to be there, and it'd be nice to have my colleagues there as well. That's at 1:30. It should last about an hour, an hour and a half total. They'll do a little tour of the facility. It's a new detachment that has about nine RCMP right now, and they're projecting 12 RCMP to be in the community.

Shortly afterwards I'm trying to arrange a bus or a seniors' van which will take us to Agrium, which is a world-class fertilizer plant just six miles south of Redwater. I've basically slated that for about 3 o'clock 'til about 5. We'll do a complete tour of the fertilizer plant itself, and then we'll be back at Redwater. I've booked the Pioneer club, where we'll have our supper that evening. As well, the general meeting will be held in that same facility.

10:50

The thing is that because we have weeklies, advertising should be out by this Friday; okay? I can get you a list of the newspapers if you wish, but that should be out there because they come out usually on Monday or Tuesday or Wednesday of the following week. If you put it in the week after, people may not get it before the 5th.

So it's all set up. Chinese food at lunch, and we get Ukrainian food in the evening. That's my report. Any questions?

Mr. Marz: What time would you want the committee there in Redwater?

Mr. Broda: If you want to be present for the opening at 1:30, I'd sure like to see you there if possible. Right shortly after that we'll take the bus, if I can arrange it, to go to Agrium.

The Chair: Sorry. What time was that, Dave?

Mr. Broda: At 1:30.

The Chair: At this time we are going to ask the services of Revenue.

Mrs. Sawchuk: I think it's Rhonda.

The Chair: Rhonda?

Ms Sorensen: Yes. As Mr. Broda was mentioning, advertising is key for the annual general meeting. When we did the bookmarks earlier this year, they were less expensive than we had anticipated, which allowed us to put a little bit more into the advertising for the public meeting. So right now we've planned advertising to go in within the next week into the *Edmonton Journal*, the *Edmonton Sun*, the *Edmonton Examiner*, and then community newspapers within about a hundred-kilometre radius of Redwater, including Barrhead, Fort Saskatchewan, Morinville, Redwater, Smoky Lake, Spruce Grove, St. Albert, Stony Plain, Vegreville, and Westlock. Those are ready to go as soon as we gain approval to do that.

The brochures and the stat cards are currently at the printers. They'll be available for the meeting. The ad design is actually exactly like the poster, which we'll be giving to Mr. Broda as well as other members if they want to post it in their communities. Mr. Broda can have several because he can post them throughout his community.

The media advisory and the media release have been written, and they're ready to go, essentially inviting the media and asking them to RSVP so that we have some sort of idea who might be after you after the meeting.

The web site. We'll put a media kit on the Assembly web site. As

well, I'll forward the information to Revenue for the Alberta heritage savings trust fund web site. That will include the poster, the brochure, the stat card, the media release. If we can maybe get a map from the constituency office of the Redwater area and how to get there from Edmonton, then we can post that on the site as well.

Essentially, we have come under budget for all of these components.

The Chair: Perfect. You don't hear that often. Thank you very much.

Rhonda, I wasn't meaning to bump you there. I was going to ask if Revenue would provide a PowerPoint presentation for us at the annual general meeting.

Ms Housdorff: Yes.

The Chair: Okay. Great.

Under budget and it seems to hit everything. I now need approval from the Standing Committee on the Alberta Heritage Savings Trust Fund that

we accept the communications action plan for the 2004 annual public meeting as distributed.

Mr. VanderBurg: So moved.

The Chair: George. Thank you. All approve? Great. Opposed? Just checking.

Over to Cathy for the Alberta heritage savings trust fund web site.

Ms Housdorff: Thank you, Mr. Chairman. There is a memo that I circulated that has updated the hits to the heritage fund web site, and you will see that it's been fairly constant since we started tracking it.

There's one thing I'd just like to mention. In the communications plan that was approved at the last meeting there was some talk about tracking visits to the web site versus hits to it. We've talked to our technical folks about that. Given that there are a number of computers that people use more than once, like in a home or at a library or things like that, tracking the visits wouldn't allow us to track how many people in one location actually visited. So that's why we're staying with the number of hits versus visits, but as I said, you'll see that it's still fairly constant, and we do continue to use the web site address on all of our communications.

The Chair: Thank you very much. Any questions of Cathy?

On to item 7: Draft 2003-04 Report of the Standing Committee on the Alberta Heritage Savings Trust Fund. If we can get the members to look at their packages. Any questions, concerns?

This is normally tabled when we're in the House in the next session, but in this case we're going to just table it with the Speaker's office. So can I just have a motion that

the report for the Standing Committee on the Alberta Heritage Savings Trust Fund dated September 2004 be approved as presented.

Rob.

Business Arising from the Minutes of the Previous Meeting, a list of securities written down during the 2003-2004 fiscal year. Cathy?

Ms Housdorff: Yes, Mr. Chairman. As a follow-up we went through the *Hansard* just to see what questions had been raised, and I do have it in a memo for everyone here, but if anyone wants detailed information on it, either Dave or Peter could speak to it.

One commitment from the minister was to look at how the information is reported in regard to administrative expenses, and that

will be reviewed. However, there is some additional disclosure in the first-quarter update if you go to page 7.

Then the other question. Mr. Bonner had also asked for a breakdown of the writedowns for the fiscal year '03-04, and that's provided in this memo.

The Chair: Thank you very much, Cathy.

Any questions? Great.

I am looking forward to October 5 and spending some time in Redwater, and if there is no further business – is there any?

Mrs. Sawchuk: We're going to have packages out for members the week before the public meeting, which is next week. What I'm

going to do is just send a quick e-mail around to all your offices asking to confirm your attendance for the annual public meeting, whether you're going to be there during the day or just strictly for the evening, and if we could have responses in by this Friday, it would really help us with our planning. So everyone will be getting an e-mail.

Thank you, Mr. Chairman.

The Chair: Thank you, Karen.

I need these forms before you leave, and could I have a motion to . . . Richard moves. The meeting is then adjourned. Thanks.

[The committee adjourned at 10:59 a.m.]