

Title: Thursday, November 2, 2006 Heritage Savings Trust Fund Committee
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Annual Public Meeting – Vermilion

[Mr. Liepert in the chair]

Mr. Snelgrove: Well, good evening, ladies and gentlemen. Welcome, and thank you for coming to the annual meeting of the Alberta heritage savings trust fund. As the MLA for Vermilion-Lloydminster I'm very pleased that Vermilion was chosen to host our annual meeting, and I hope that we're able to offer you answers to any questions that you might have and give you a little bit better understanding of how your heritage savings trust fund works.

I would like to introduce to you the members of the Heritage Savings Trust Fund Committee that are here tonight. Starting with the chair, Mr. Ron Liepert is the MLA for Calgary-West. Mr. George Rogers, the deputy chair, is the MLA for Leduc-Beaumont-Devon, Mr. Art Johnston is the MLA for Calgary-Hays, Mr. Wayne Cao is the MLA for Calgary-Fort, Mr. Hugh MacDonald is the MLA for Edmonton-Gold Bar, and Mrs. Weslyn Mather is the MLA for Edmonton-Mill Woods. Welcome to all my colleagues.

Chairman Ron.

The Chair: Thanks, Lloyd, and welcome everybody for coming out tonight. We had this annual public meeting in Calgary last year, and there are two or three times as many people here tonight as there were in Calgary, so thank you.

My job is to chair tonight's meeting, and before I start, I'd like to introduce some of the staff that we have with us. From the Ministry of Finance are the three fellows who are actually going to know what they're talking about. They're going to explain the heritage fund to us. First of all, Doug Stratton is the director of fund management with Alberta investment management. Eric Spink is the executive director of policy and strategic planning. Bob Howard is senior policy adviser, policy and strategic planning. Then we have Mike Berezowsky, who is our communications officer. He's joined by Karen Sawchuk, who is committee clerk, at the back of the room. We also have two other communications folks, Rhonda Sorensen and Tracey Sales. Then we have three ladies with *Alberta Hansard*. All of this will be recorded in *Hansard*, and if you so choose, you can actually read about this stuff on the web tomorrow. Well, maybe not tomorrow but in a couple of days. We have Janet Schwegel, Heather McNeill, and Robin Grigat from *Alberta Hansard*.

Our presentation this evening will be in two parts. First of all, members of the committee will review the history, the mission, and the future of the heritage fund, and ministry staff will discuss the performance of the fund. Following that, we'll have a question-and-answer session. I would encourage you to ask questions because that's the purpose of us being here. There is no question that is too silly to ask, so don't hesitate to ask some questions.

First of all, I'll start with some background. The heritage fund, as many of you know, was started in 1976 and has been a unique aspect of Alberta's finances for over 30 years. There is no other province that has such a fund. We've all, of course, heard about Alaska, but in Canada no other province has such a fund.

From 1976 to 1983 the fund grew primarily because we were putting away 30 per cent of the province's oil and gas revenues. From '84 to '86 that amount was reduced to 15 per cent, and then from '82 to 2004 all income from the fund except for some ad hoc inflation-proofing over the last few years has been transferred to the general revenue fund to meet the priorities of the province. As you can see from the slide, we started to put money into the heritage fund

again last year. In the last fiscal year, ended March 31, 2006, we transferred \$1.75 billion into the fund.

So with those few introductory comments I'm going to ask each one of our members of the committee to briefly go through parts of the presentation, and I'll start with Art Johnston.

Mr. Johnston: Thank you, Mr. Chair. On average the heritage fund has earned \$1 billion per year since it was set up in 1976. Investment income from the fund has been used to help pay for health care, education, social programs, infrastructure, and capital expenditures. When Alberta's economy has struggled, income from the heritage fund has allowed the government to avoid deep cuts to important social programs and raising taxes any more than necessary. Also, the heritage fund played a large role in helping the province become debt free. Income from the fund is for present generations of Albertans, and the capital of the fund is for future generations.

Lloyd.

Mr. Snelgrove: Thanks. The value of the heritage fund depends on the amount we deposit into the fund, the amount we take out of the fund, and the amount the fund earns each year. The heritage fund grew rapidly from its start to 1986 because we were putting resource revenue into it. The value of the heritage fund stayed pretty much the same since we stopped putting money in it. The heritage fund is at its highest value ever since we started putting money in again in fiscal 2005-06. This is because we added \$1,750 million and kept \$382 million in the fund for inflation-proofing.

The heritage fund has helped put the province in the enviable fiscal position that it is in today, and Albertans will continue to benefit from the fund's contributions. All those billions shown on the last slide add up. During the fund's 30-year history about \$29 billion, \$28.6 billion to be exact, in investment income has been used for Albertans' priorities, including debt reduction, health care, education, social programs, infrastructure, and capital expenditures.

In addition to the \$28.6 billion the Alberta endowment funds make social and economic contributions in Alberta. We spun off the medical research fund and the scholarship fund from the heritage fund. The Alberta Heritage Foundation for Medical Research endowment fund was started in 1980 with a \$300 million contribution from the heritage fund. The medical fund has been instrumental in funding research and advances in medical science and has also provided a competitive edge in the biotechnology industry. The Alberta heritage scholarship fund was established with \$100 million transferred from the heritage fund in 1981. Each year millions of dollars of income earned from the scholarship fund help pay for Albertans' postsecondary education.

Mr. Cao.

Mr. Cao: Thank you, Mr. Snelgrove. If you look at the diagram there, it's showing the heritage fund transfer as a percentage of the total provincial revenue. In a typical year the fund generates about \$1 billion in investment income, or 3 to 4 per cent of government revenues. But when the government first began to draw this income, it brought in closer to 13 per cent of government revenues.

The relative importance of the heritage fund in paying for Albertans' social programs grew from 1976 to 1982 as we were growing the fund. The relative importance declined during the years we were spending all the income. The decline shows more the growth of Alberta than a reduction in investment income. The percentage contribution will grow if we save money in the heritage fund faster than the overall size of government increases.

I'd like to call on Mr. Rogers.

Mr. Rogers: Thank you, and good evening, ladies and gentlemen. I'll talk a little bit about the mission of the fund. In the early 1990s Albertans were concerned about the sustainability of investment income. Many Albertans were wondering whether we should sell off the fund and pay down the debt of the province.

In 1995 we sent questionnaires to Alberta households asking what to do with the heritage fund. After extensive consultation the government decided that the mission of the fund would be to focus on maximizing financial return that would allow current and future generations of Albertans to gain maximum benefit from the fund.

The Alberta Heritage Savings Trust Fund Act states that the mission of the fund is as follows: "to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns . . . for current and future generations of Albertans." We made extensive changes to the funds to focus on this mission. We brought in new legislation and improved governance structure, and we sold old investments that had been made for other than financial reasons. Essentially we manage the fund on the same basis as an institutional endowment fund. We are continuing to improve the governance of the fund to better achieve this mission. For example, we are exploring the use of a Crown corporation to manage the investments.

Mrs. Mather.

7:20

Mrs. Mather: Thank you and good evening. I'd like to just take a look at the governance aspect. We're looking at transparency with a business plan, an annual report, a quarterly report, and of course our website, www.albertaheritagefund.com.

Continuing to discuss the governance and investment philosophy to achieve this mission, one of the principles of governance for the heritage fund is transparency. We do that with a detailed business plan that's developed every year and approved by the standing committee. The plan sets out specific investment objectives, goals, and strategies to achieve the heritage fund's objectives as expressed in the legislation.

Secondly, the heritage fund annual report is prepared and published within three months of the end of the province's fiscal year, which is March 31. The annual report provides a comprehensive review of the activity and results of the fund for the year.

Thirdly, every quarter an investment report is prepared for the heritage fund. The quarterly report provides information about the investments held by the fund, the performance of every investment sector, and an overall review of the fund.

These documents are always available on the website, as I mentioned before, and today we have copies available at the back of the room.

I'd like to turn it over to Hugh MacDonald now.

Mr. MacDonald: Thank you. Good evening, everyone.

Mr. Chairman, I would like to note the attendance of the fine citizens from Lloydminster who have driven over this evening. I appreciated your interest and your conversation before the meeting started.

The performance of the fund is reviewed by this standing committee of the Legislative Assembly and by the public in annual meetings, like the one we're having tonight. The standing committee is required by law to review and approve the business plan, receive and review quarterly reports, approve the annual report, review the performance of the heritage fund, report to the Legislature as to whether the mission of the heritage fund is being fulfilled, and hold public meetings with Albertans.

The Alberta Heritage Savings Trust Fund Act sets out a well-defined standard of care in the management of investments: that of a reasonable and prudent person. We have clearly defined benchmarks against which to measure the performance of the fund. For example, we use the Scotia Capital universe bond index to measure the performance of the heritage fund's bond investments and the Standard & Poor's/TSX composite index to measure the performance of the fund's Canadian stocks.

The Minister of Finance is responsible for the operation of this fund, but if you notice on page 45 of the annual report, you will see an Endowment Fund Policy Committee. I think that in this province we would be better served if the investment advice that is provided by the endowment fund policy committee be made public through the standing committee of the Legislative Assembly. If we're going to have openness and accountability and transparency, all advice, in my view – and this is my personal view – that is provided to the Minister of Finance and department officials should be made public.

At this time I would like to thank you and turn it back to the chairman.

The Chair: The investment objective of the fund is to maximize long-term financial returns subject to an acceptable level of risk. This requires a global outlook. To achieve this objective, the heritage fund's assets are invested around the world in a diversified portfolio of investments, which includes stocks, bonds, and real estate. Professional investment management is provided by the investment management division of Alberta Finance.

I think it's timely now that we would ask folks from Alberta Finance to explain how this fund is managed. I think we'll start first with Eric.

Mr. Spink: Thank you, Mr. Chair. We're going to change tack now and talk about the day-to-day management of the fund. The implementation of investment policy is assigned to Alberta investment management. What we want to do is give you a general overview of the fund.

Alberta's investment philosophy is to be risk aware, diversified, disciplined, focused on the long term, and cost-effective. First and foremost of these, Alberta's philosophy is to be risk aware. We pay very close attention to where we've invested the fund relative to the investment policy that's been approved in the business plan, as has been described. Risk is primarily managed through diversification, and Doug Stratton will talk a little more about diversification in a moment.

We also consider ourselves to be disciplined investors. We look for strategies that can generate return on a consistent and repeatable basis. We look for opportunities to add value at the margin where it makes sense. When we don't see the opportunity to add value through active management, we use index.

We take a long-term view, and we do not try to anticipate every hiccup in the markets.

We believe that cost does matter. Alberta investment management has a clear competitive advantage because it can invest at a relatively low cost.

Finally, we don't try to do everything in-house. About one-third of the assets of the fund are managed outside of Alberta Finance by specialists.

There are other investment policies we follow as well. We have policies with respect to hiring external managers and the types of strategies that we'll use. We have limits on the quality of securities and how much of any specific type of security we will hold. We have policies on how much discretion we allow managers to have in

executing transactions. As Mr. MacDonald mentioned, we have some clearly defined benchmarks to monitor and measure performance.

This pie chart illustrates the policy asset mix of the fund. This is the asset mix that's shown in the heritage fund's business plan. The policy asset mix guides the investment of the fund. Ranges are established for each asset class. This ensures that the fund will maintain exposure to each major asset class, and it limits the discretion of the manager. If market action results in a breach of any of these limits, then there is a rebalancing procedure that's initiated to bring the actual weights more in line with the long-term asset mix policy.

The fund has a significant investment in equities, as you can see, including foreign equities – that is, U.S. and non-North American equities – and it's broadly diversified by country, industry sector, and company. It has a significant component that is managed externally. The fund also has an important allocation to real estate as well as allocations to absolute return strategies and private investments.

The asset mix for 2005-2006 is a little bit different than for the year before. We've replaced some bonds and hedge funds with private investments. This was done to increase return at an acceptable level of risk.

To talk some more about diversification and performance, I'll turn it over to Doug Stratton of Alberta investment management.

Mr. Stratton: Thank you, Eric. The main point of diversification is to reduce risk with a given level of return. The portfolio standard deviation on the vertical axis of the graph is a measurement of risk. This graph is for illustrative purposes. As one adds assets to a portfolio, risk, as measured by the price volatility, decreases at first sharply and then more gradually. The heritage fund is invested in a diverse portfolio that has lower volatility with competitive returns compared to a portfolio consisting entirely of stocks or entirely of bonds.

With regard to the heritage fund, we look at the fund to make sure that we do not ignore or have an excessive exposure to a particular asset class, geographic region, investment style, or industry. This was an important consideration in the decision to have equity exposure in non-Canadian markets. Canada represents only 3 per cent of the world equity market, and it has limited exposure in many key sectors. We have 15 per cent of the heritage fund assets in U.S. stocks and another 15 per cent in global stocks. Increasing our non-Canadian exposure helps control investment risk.

The Canadian stock market posted a very strong return this year. Oil prices increased to record levels, and the energy sector in the S & P/TSX composite index increased by 51 per cent during the year ended March 31, 2006. Overall the Canadian stock market increased 28.4 per cent this year, compared to 13.9 per cent in the previous year.

The Canadian dollar continued to strengthen against world currencies, such as the euro, yen, pound, and U.S. dollar. Federal government surpluses, rising oil prices, robust growth forecasts, and expectations of higher interest rates helped fuel the increase in value in the Canadian dollar.

7:30

The S & P 1500 index, which tracks the performance of the largest 1,500 American companies, increased by 13 per cent over the year in U.S. dollars, compared to 7.2 per cent in the previous year. Currency movements had a negative impact, pulling returns from U.S. investments down when translated into Canadian dollars. Overall, non-North American markets had a healthy return in '05-06.

The Morgan Stanley capital international index for Europe, Australasia, and the Far East, the MSCI EAFE index, measures the performance of approximately 1,200 companies in 25 stock exchanges around the world. The index increased by 20 per cent in Canadian dollars, compared to 6.2 per cent in the previous year. Growth in demand from China continues to be strong, keeping commodity prices firm.

At March 31, 2006, the fair value of the fund's net assets increased to \$14.8 billion, up \$2.6 billion from the previous year. Transfers into the fund of \$1.75 billion, unrealized capital gains of \$466 million, and \$382 million retained in the fund for inflation-proofing accounted for the overall increase in assets of \$2.6 billion.

The performance of the heritage fund is measured over the long term. The chart outlines the historical performance of the fund over the last five years. During this period the fund generated an annual return of 7.1 per cent. The heritage fund is expected to generate a rate of return of 4.5 per cent above inflation at an acceptable level of risk over a moving five-year period. Over the last five years inflation averaged 2.2 per cent; therefore, the fund was expected to generate a nominal annualized rate of return of 6.7 per cent. As you can see, over the period the heritage fund returns were better than the long-term target. The chart also highlights the fact that investment returns are volatile. For example, losses in 2002-03 were followed by an extremely strong year of gains in 2003-04.

For your interest, this is a list of the heritage fund's largest 10 Canadian equity investments. As you can see, the fund is invested in some of the biggest and most successful companies in Canada.

I'll turn it back to Lloyd at this time.

Mr. Snelgrove: The \$3 billion access to the future endowment is designed to promote access and affordable, high-quality learning opportunities in the advanced education system. The 2006-07 government estimates provided for \$250 million to be added to the heritage fund this year, '06-07, as part of the access to the future endowment. This will bring total funding for this endowment to \$1 billion, with \$2 billion more to go. The estimate also provides for \$1 billion to be added to the heritage fund this year from the allocated surplus. Investment income from this addition will help pay for health care, for education, for social programs, and for infrastructure.

I'll turn it over to the chair now, please.

The Chair: Thank you, Lloyd. Starting last year, the fund kept enough investment income to offset inflation. Only investment income in excess of inflation was transferred to the province's main operating fund, the general revenue fund. For the 2005-2006 fiscal year \$382 million was kept in the fund to protect it against inflation. This was the first year of regular inflation-proofing, and that was required by law. We will inflation-proof the heritage fund every year going forward. This year we estimate that will be about \$283 million to protect the heritage fund from inflation, and to that end, we kept \$71 million in the fund for inflation-proofing for the first quarter, that ended on June 30, 2006.

In addition to inflation-proofing, the 2006-2007 government estimates provide for an additional \$1 billion to be transferred into the fund from the government's allocated surplus, and there'll be an additional \$250 million going into the fund for the access to the future commitment. Future income levels will depend on the capital market returns and the degree to which the heritage fund is allowed to grow.

That concludes our formal presentation for this evening. I'd just like to take a couple of minutes to thank a few people before I open the floor to questions. On behalf of the committee I'd like to thank

Lloyd Snelgrove for hosting us this evening and all of you folks for coming out. A special thanks to Brenda Lee, from the constituency office, who has been working very hard to set up this meeting. I'd also like to thank the staff from Alberta Finance for providing all the necessary information regarding the heritage fund and completing this evening's slide presentation, and of course thanks to the staff of the Legislative Assembly Office, who also provide the administrative support to this committee and make things a lot easier for us to operate.

So with that, I would open the floor to questions. Even though it's a small room and we can probably hear your questions with you standing up or sitting in your seat, we would ask you to go to the microphone because this particular session is being recorded for *Hansard* purposes, and the way *Hansard* can pick up the question is through the microphones. So if you could, please, I'd ask you to state your name, ask your question, and we will try and answer it here. If it's technical in nature, we'll call on some of the experts from Alberta Finance. With that, feel free to take advantage of the open mike.

Mr. Heard: My name is Stu Heard. I'm from Vermilion. My interest is in the environmental sector, and I would just like to say congratulations to the provincial government on continuing to put some money back into the heritage fund after a bit of a hiatus. I think that's a very effective way to place the province of Alberta for the next few years and generations.

Given my interest in the environment I noticed in your presentation that the environment is not one of the sectors that you address. I think you addressed six or seven major sectors that you would allocate funds towards. My question relates to: is there opportunity, possibility to establish another sector called the environment sector that would promote spending in the areas of energy efficiency, renewable energies, in the areas of wildlife management, in the areas of protected areas management, in the areas of reclamation of disturbed lands, and other areas that are specific to the environment, including quality of water, quality of air, and attempts to move the province to more clean air, clean water initiatives? Again, my question is: is there an opportunity that the provincial government could establish an environment sector?

Thank you.

The Chair: Just for clarification, you were asking for an endowment set aside within the heritage fund to be used for these particular initiatives.

Mr. Heard: Correct.

The Chair: Okay.

Mr. Heard: I understand that you have several sectors of the endowment, so I would like to ask that the provincial government establish one called environment or something similar.

The Chair: Well, I think, just very briefly, as you are probably aware, we are currently in the midst of a leadership campaign within the Progressive Conservative Party, which will ultimately have a new Premier. I certainly know of several of the leadership candidates who have talked about such things as fully funding the Water for Life strategy through the heritage fund. I don't know if I can specifically recall anything relating to some of the wildlife management and some of the other things that you just mentioned, but I think you make a very good point. I'd ask if there are any others on the panel who would like to make a comment, but in essence what

you're asking is for the Legislature to consider setting up a special endowment as it relates to environment.

Mr. Heard: Right.

The Chair: Thank you.
Hugh.

Mr. MacDonald: Thank you, Mr. Chairman. That's a very good question, the first part of your statement. It is about time that we have inflation-proofed the Alberta heritage savings trust fund. If over the years we had been inflation-proofing it instead of just starting – and it's a good start – it would currently be worth in excess of \$19 billion.

7:40

Mr. Heard: It's easy to look back. I'd like to look forward and request the establishment of an environment fund.

Mr. MacDonald: Yes. There are no members of the New Democrat caucus on this committee, but both the Alberta Liberal Party and the New Democrat caucus have in the past suggested that there be money set aside in an endowment fund for renewable energy.

Thank you.

Mr. Heard: Well, I applaud you for that.

Mr. Snelgrove: I agree. I want to say right up front, Stu, that your wife told us this morning that you're leaving Vermilion, and that's truly our loss. Stu is really one person that walks the talk about the environment, and we've appreciated his honest candour over the years.

Stu, I think it's a little bit too important to put our environment at the whim of a fund. I think we need to be held feet to the fire as a government so that all of the programs we do have a lens that looks at the impact, whether it's renewable energy sources, on the environment. I don't think you can diminish or put that so that on a year that when our investments are bad, it shouldn't mean that we treat our environment any less importantly.

So I agree that we need to focus on that as a government – I think that needs to be part of the everyday budgeting that we do with every department – and use the heritage fund, the endowments, for this more further-out thinking but not be limited to an endowment for funding in those areas.

Mr. Heard: Fair enough. I would hold you to task on that.

Mr. Snelgrove: I know that you will.

Mr. Heard: I'd like to see that as well. Nonetheless, I still would continue to ask for an endowment fund for the environment. I think it's equal to the others that are placed on the list. I would assume – I know what assume means, though – that the protection of the environment would not be solely funded by an endowment fund, that that would be supplemental to existing budgets. I think there's a significant need within the provincial government coffers to do value-added activities within the environmental sector.

The Chair: Thank you very much.

Mr. Heard: Thank you.

The Chair: That was a good presentation.
Other questions?

Mr. Whittaker: Good evening. Thank you for taking the time and the effort in coming to Vermilion and to the region to have your annual meeting. I can remember when the heritage trust fund was first talked about and the anticipation of how it was developed. It grew, and those were exciting times when it was growing. I certainly appreciate that now that the province is in a position to continue to make contributions to that. I guess that just in broad terms I'm wondering about the security of the heritage trust fund and the long-term plans for growth.

The Chair: I'm not sure that I understand your question.

Mr. Whittaker: Well, you have investment policies and that.

The Chair: Yeah.

Mr. Whittaker: At a political whim could it be basically taken apart and used for natural expenditures? I'm not sure if the general public understands that. In the long term is there a goal or is there a plan to grow this fund to a specific number depending on provincial revenues and those types of things?

The Chair: Well, I think, just a couple of brief comments on that. First of all, any political party that was in government that would decide to tear apart the heritage fund would probably do so at its own peril. As mentioned earlier, there were extensive public consultations done, I guess it was about 10 years ago now. Even at the time when the province was significantly in debt, Albertans told government that they didn't want to have the heritage fund touched. I don't think the view of Albertans will have changed much today. I believe that Albertans are proud of the heritage fund. I believe that any government that would decide to spend the heritage fund would do so at their own peril and probably would be wiped out in the next election. So, from that standpoint, at the end of the day Albertans are the ones who are going to protect the heritage fund regardless of who is in government.

Relative to the growth of the fund there are varying opinions. Again I come back to the current leadership race that is under way. There are a number of positions – some of them are different than others – relative to how much is put into the heritage fund. There is a view by some people that we should be not putting anything in the heritage fund and using the money almost solely to catch up on infrastructure. There are other proposals that we need to go back in this time of large government surpluses and start to put anywhere, you know, upwards to 30 per cent annually into the heritage fund. So the future growth prospects of the fund I think will depend largely on the leadership that's going to take place over the next short period of time.

Mr. Cao, were you asking to comment on this? And then Mr. Rogers.

Mr. Cao: Well, thank you, Mr. Chair. I think that from my observation and relating to my constituents across Alberta, which I have travelled through, the resounding agreement is that we have to keep growing our heritage fund for a rainy day. We're talking about the natural resources, oil and gas. Then what? So I think that carries a lot of weight in our democratic systems, like election, that Mr. Liepert just talked about. But it's also the feeling of it. I, for one, would not touch it. I want it to grow.

Thank you.

Mr. Rogers: Thank you, Mr. Chairman. I think it's fair to say, Don, that the fund will always be subject to government policy. Of course, government policy can change from time to time. On the

other side, from a technical standpoint, from the types of policies that these gentlemen to our left here employ, certainly by way of the business plan and the direction that they get from this committee and from government, suffice it to say that on a go-forward basis the ownership of this fund, the interest that Albertans have in this fund and its long-term life for the future of this province – I can tell you that I have three children ranging from 16 to 21. As one member sitting around the table today and hoping to be around the table for some time, I believe, and I think the chairman mentioned, that it would be at our peril and any future government's peril that we would fool with that legacy.

You know, this is something that we as the stewards today are obligated – I believe it would be unconscionable if we took any kind of moves that would see this future asset for our children and our grandchildren diminished in any way. So I think you can rest assured.

Certainly, as we hear – and that's part of the reason we have these meetings across the province from year to year, so that we can hear from people like you – we get the sense from the public of the value of this fund and the direction that it should take. I think you can rest assured that the future of this fund with the type of people sitting around the table today and others that will follow will be in good hands for our children.

The Chair: Mr. MacDonald.

Mr. MacDonald: Thank you, Mr. Chair. First off, it would be my personal view that this fund is very well managed by the officials from the Department of Finance. I think they do an exceptional job, and I admire their skill. However, while we're in this enormous resource boom, I think it would be prudent public policy if at least 30 per cent of resource royalties were set aside for future generations because your children and my grandchildren will probably not, whenever they're forming a government and having public policy discussions, have the luxury that we currently have with so much resource royalty. I'm not saying that they shouldn't be higher, but while these resource royalties are this high, we should be squirrelling a lot of this money away in this fund.

Thank you.

7:50

The Chair: It's not often that I agree with Hugh MacDonald, but I do on that one.

Just sort of to conclude on that question, as Lloyd mentioned in his presentation, since the government stopped putting money into the fund and started taking the revenue that it generates annually, some \$29 billion has flowed from the revenue of the fund to general revenues to fund things such as health care, education, and so forth and, obviously, to help clear off the debt. So it has been a pretty significant revenue source for the province.

You know, it also helps answer the question on growing the fund. I think now that the debt is paid off, it is time to start growing the fund significantly, and as mentioned earlier, the province has put last year almost \$2 billion in the fund and has committed pretty much the same for this year.

Mr. Snelgrove: I think probably everybody in the room will be happy to know, to help them understand, that we as the MLA committee don't make the decisions around what investment will be made. We set policy and approve the policies of the heritage fund to operate in the parameters that we want them to. So we're not at the table saying, "Geez, maybe we should buy General Motors today and Ford tomorrow." That's the job of the people that are profes-

sionals in that department. So it's not us running the day-to-day affairs, and I'm sure you'll be more comfortable with me making that clear.

Mr. Whittaker: If I could just make one final comment. I failed to introduce myself. I'm Don Whittaker, reeve of the county of Vermilion River.

Certainly, I'm a believer in the heritage trust fund and the things that it does. I believe that there's probably no Albertan that hasn't been touched in some aspect by the contribution that the heritage trust fund has provided.

I guess the concern that I have is that we certainly have a lot of new Albertans, who are welcome and appreciated and needed in this province, who maybe do not have the same appreciation for the heritage trust fund that we do. But also, even, I know that in health care, education, municipalities, and some of the things that the trust fund is supporting, we're all at the table as well. I can anticipate that there's probably a huge ask in this province, and I think that for the sake of the future of the fund we need a balanced approach to the ask. But let's not forget to grow the fund so that we do have that sustainability that we are looking for in the future for the betterment of all of Alberta.

Thank you.

The Chair: Very good comments.

Other questions? Don't be afraid.

Mr. Snelgrove: Mr. Chairman, I think that about 15 minutes after we close the meeting, they're going to say: you know, I had those guys sitting there, and I was going to ask this, and I didn't, and I'm kicking myself now. So if there's a niggly, we're sure open to it.

The Chair: If you want to ask Lloyd Snelgrove a question as your MLA, I'll even permit that.

Mr. Melnyk: Albert Melnyk, county of Minburn deputy reeve. I'll reserve Lloyd's question for another day.

Is there any ceiling or threshold as to how high this fund can go?

The Chair: There's no legislated one. I think that – I'll sort of speak personally – it'll probably get to a level whereby the revenue that it would generate: there would be a lot of pressure to do certain things with it. But there is no legislated ceiling.

Mr. Melnyk: The reason I asked is that just a simple thing like infrastructure, like ordinary roads in rural areas – since energy development has prevailed more and more, we're losing a lot of our infrastructure, and as municipalities we are having difficulty in maintaining it and replacing it. It's not going to get better. It's going to get worse because input costs are greater. It costs more money to do everything. I'm a firm believer in the fund, like what Mr. Whittaker said, and I'd just like to see it grow because I can see the day when resource revenues will drop. We will need it, as Mr. Cao just mentioned here, for a rainy day. That rainy day could come we don't know when, maybe not in our time but in somebody else's.

The Chair: Well, it's always a difficult balance. It's not unlike your own personal situation. I mean, you have to put some of your income into what would be called infrastructure, whether it's replacing a vehicle or a fridge in your house, but you also have to put some into a savings account, and you've got your daily operating expenses. So, really, the government, the heritage fund being part

of government, is very much similar to how you operate on your own situation.

Any other comments at the table?

Mr. Cao: Just to follow up your idea about infrastructure, if you look at the government of Alberta, the current budgets are laid for the next three or five years. In terms of infrastructure spending – capital building, roads, and public infrastructure – it's a huge dollar. I think we were talking about tens of billions of dollars in the next three to five years. That's independent of the heritage savings fund.

The Chair: Hugh MacDonald. Then I'm going to call on – I'm not sure if our colleague Weslyn Mather wanted to get in there, but I can't see her way at the end, so I want to give her the opportunity if she wants to make a comment after Hugh.

Mr. MacDonald: Yes. Thank you very much, Mr. Chair. To the previous speaker: I was in attendance when you were at a standing policy committee on behalf of your county discussing the situation of the heavy haulers with bitumen and the condition of your local roads, and I have this question for you if you don't mind. I'm an opposition member, and I guess I'm used to asking questions. Dr. Oberg has suggested an idea that I think needs a lot of public debate. Some jurisdictions in America – Texas and Colorado for two – allow local municipalities a cut of the royalties for whatever issue they want to use the money for, whether it's for schools or for roads or bridges. How do you feel about that proposal from Dr. Oberg, that municipalities be given a cut of the royalties from the resources that are produced within their geographical region?

The Chair: It's not relevant to the heritage fund committee, but because there's no one else at the microphone, we'll entertain the question. But I don't want to get into a debate on various leadership candidates' positions on funding that has little or nothing to do with the heritage fund. So go ahead.

Mr. Melnyk: Yes, Mr. Chair. I realize where you're coming from. That is a fair remark by the gentleman, but then we can go on and on with this. I mean, then we'll start talking about school tax exemption and all that stuff. So I don't think we want to get into too much of that.

The Chair: Weslyn, did you want to make some comments?

Mrs. Mather: I would like to.

The Chair: Go ahead.

Mrs. Mather: Thank you. I want to say that as I talk to constituents in my own riding and other areas in the province as well, there's often a question about what the heritage trust fund really is, a lack of understanding of what it is, but also the very definite message that they want it. It's important, and we need it.

I think that it's incumbent upon us in government to have good stewardship when it comes to this blessing that we have in this province. We are very, very fortunate. I think that good stewardship demands that we look ahead to the future, to the day when perhaps the investment from our heritage trust fund could surpass what we now get from our nonrenewable resources, our gas and oil. So I think that it's very important for us to look at sustainability. What can we do for the future to ensure that we will be able to sustain the quality of life that we enjoy now and that we hope to improve on?

8:00

The Chair: Are there any other questions from the floor? That's not a bad way to conclude the meeting if we don't have any other questions from the floor.

We are here for a while. For those of you who were too shy to ask questions at the mike, feel free to talk to any one of the members of the committee or any one of our experts when it comes to investing.

I haven't looked at my script, but is there anything I have to do at the end here to conclude this thing, Karen?

Mr. MacDonald: Yes, Mr. Chairman, there is.

The Chair: Okay. What is it?

Mr. MacDonald: Karen Sawchuk brought some delicious treats, and they're at the back there.

The Chair: All right. With that, I'm going to conclude the meeting tonight. Thank you all again for your attendance. Please stick around and have a coffee, and I did notice that there is quite an array of goodies. Again, thank you and thanks for your interest.

[The committee adjourned at 8:01 p.m.]

