



Legislative Assembly of Alberta

The 29th Legislature
Third Session

Standing Committee
on
Public Accounts

Agriculture and Forestry

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The 29th Legislature
Third Session**

Standing Committee on Public Accounts

Cyr, Scott J., Bonnyville-Cold Lake (W), Chair
Dach, Lorne, Edmonton-McClung (ND), Deputy Chair

Barnes, Drew, Cypress-Medicine Hat (W)
Fildebrandt, Derek Gerhard, Strathmore-Brooks (W)
Fraser, Rick, Calgary-South East (PC)
Goehring, Nicole, Edmonton-Castle Downs (ND)
Gottfried, Richard, Calgary-Fish Creek (PC)
Littlewood, Jessica, Fort Saskatchewan-Vegreville (ND)
Loyola, Rod, Edmonton-Ellerslie (ND)*
Luff, Robyn, Calgary-East (ND)
Malkinson, Brian, Calgary-Currie (ND)
Miller, Barb, Red Deer-South (ND)
Nielsen, Christian E., Edmonton-Decore**
Panda, Prasad, Calgary-Foothills (W)
Renaud, Marie F., St. Albert (ND)
Turner, Dr. A. Robert, Edmonton-Whitemud (ND)
Westhead, Cameron, Banff-Cochrane (ND)

* substitution for Nicole Goehring

** substitution for Cameron Westhead

Also in Attendance

Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Hanson, David B., Lac La Biche-St. Paul-Two Hills (W)
Schneider, David A., Little Bow (W)

Office of the Auditor General Participants

Merwan Saher	Auditor General
Fouad Kamel	Principal

Support Staff

Robert H. Reynolds, QC	Clerk
Shannon Dean	Law Clerk and Director of House Services
Trafton Koenig	Parliamentary Counsel
Stephanie LeBlanc	Parliamentary Counsel
Philip Massolin	Manager of Research and Committee Services
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Nancy Robert	Research Officer
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Jody Rempel	Committee Clerk
Aaron Roth	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications
Jeanette Dotimas	Communications Consultant
Tracey Sales	Communications Consultant
Janet Schwegel	Managing Editor of <i>Alberta Hansard</i>

Standing Committee on Public Accounts

Participants

Ministry of Agriculture and Forestry

Dave Burdek, Assistant Deputy Minister, Policy and Environment

Bev Yee, Deputy Minister

Agriculture Financial Services Corporation

Chris Dyck, Interim Vice-president, Innovation and Product Development

Darryl Kay, Interim Chief Executive Officer

8:30 a.m.

Tuesday, May 9, 2017

[Mr. Cyr in the chair]

The Chair: Good morning. I would like to call this meeting of the Public Accounts Committee to order and welcome everyone in attendance. My name is Scott Cyr. I'm the MLA for Bonnyville-Cold Lake and chair of the committee.

I'd ask the members, staff, and guests joining this committee at the table to introduce themselves for the record, starting to my right.

Mr. Dach: Lorne Dach, MLA, Edmonton-McClung and deputy chair.

Ms Miller: Good morning. Barb Miller, MLA, Red Deer-South.

Loyola: Good morning. Rod Loyola, MLA for Edmonton-Ellerslie.

Mrs. Littlewood: Good morning. Jessica Littlewood, Fort Saskatchewan-Vegreville.

Mr. Malkinson: Brian Malkinson, MLA for Calgary-Currie.

Mr. Nielsen: Good morning. Chris Nielsen, MLA, Edmonton-Decore.

Dr. Turner: Bob Turner, MLA, Edmonton-Whitemud.

Ms Renaud: Marie Renaud, St. Albert.

Ms Luff: Robyn Luff, Calgary-East.

Mr. Drysdale: Wayne Drysdale, MLA, Grande Prairie-Wapiti.

Mr. Gotfried: Richard Gotfried, Calgary-Fish Creek.

Mr. Burdek: Dave Burdek, assistant deputy minister, policy and environment, Agriculture and Forestry.

Ms Yee: Good morning. Bev Yee, Deputy Minister of Agriculture and Forestry.

Mr. Kay: Good morning. Darryl Kay, interim CEO, Agriculture Financial Services Corporation.

Mr. Kamel: Fouad Kamel from the office of the Auditor General.

Mr. Saher: Good morning. Merwan Saher, Auditor General.

Mr. Panda: Good morning. Prasad Panda, Calgary-Foothills.

Mr. Schneider: Dave Schneider, Little Bow.

Mr. Hanson: Dave Hanson, Lac La Biche-St. Paul-Two Hills.

Mr. Barnes: Good morning. Drew Barnes, Cypress-Medicine Hat.

Mr. Fildebrandt: Derek Fildebrandt, Strathmore-Brooks.

Dr. Massolin: Good morning. Philip Massolin, manager of research and committee services.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

The Chair: Thank you for those introductions.

I would note for the record that there's nobody teleconferencing into this meeting.

The following substitutions are noted for the record: Member Loyola for Ms Goehring, Mr. Nielsen for Mr. Westhead.

A few housekeeping items to address before we turn to the business at hand. The microphone consoles are operated by *Hansard* staff, so there's no need to touch them. Committee proceedings are audio- and video-streamed live on the Internet and recorded by *Hansard*. The audio- and video streams and transcripts of the meeting can be accessed via the Legislative Assembly website. Please set your cellphones and other devices to silent for the duration of the meeting.

We'll move on to the approval of the agenda. Are there any additions or deletions to the agenda? Seeing none, would a member like to move that? Member Loyola. Any discussion on the motion? All in favour? Any opposed? Thank you. The motion is carried.

Approval of the minutes. Do members have any amendments to the May 2, 2017, minutes? If not, would a member move that? Mr. Nielsen. Any discussion on the motion? All in favour? Any opposed? Thank you. The motion is carried.

I'd like to welcome our guests, who are here on behalf of the Ministry of Agriculture and Forestry as well as the Agriculture Financial Services Corporation to address the systems to manage the AFSC lending program.

Members should have the research report prepared by research services, the Auditor General briefing document as well as the status of Auditor General recommendations document, initially completed and submitted by the ministry for the March 14 Public Accounts Committee meeting and confirmed by the ministry as current for the purpose of today's meeting.

I invite the deputy minister to provide opening remarks not exceeding five minutes, and I will then turn it over to a representative from the AFSC.

Ms Yee: Thank you very much. If it's all right with the chair and the committee, I'm going to take the entire 10 minutes and speak on behalf of both of us.

The Chair: No objections? Thank you.

Ms Yee: Good morning, everyone, and thank you for the opportunity to be back here before the committee to continue our discussions, with a specific focus on the Auditor General's recent systems audit of the Agriculture Financial Services Corporation, commonly known to us as AFSC.

Just before I begin, let me introduce some additional colleagues who are joining us in the room here today: Jamie Curran, assistant deputy minister for industry and rural development; Anne Halldorson, senior financial officer; Katrina Bluetchen, executive director of extension and communication services; Freda Molenkamp-Oudman, acting assistant deputy minister for food safety and technology division; Kelly Rich, executive director, investment attraction and strategy with AFSC; Chris Dyck, interim vice-president, innovation and product development with AFSC.

I want to first begin by acknowledging the hard work of AFSC's front-line staff. They provide important services to Alberta across the province each and every day, and they have certainly had their work cut out for them lately as the last two growing seasons have created challenges for our province's agricultural community. From the dry conditions of 2015 to the rain and snow that hampered last year's harvest, a significant number of producers have had to access crop insurance and other business risk management programs provided through AFSC.

In 2015 AFSC paid out nearly \$500 million in crop and hail insurance claims to producers, and more than 100 inspectors are currently working very long hours and streamlining processes to help producers who still have unharvested crops in the field today. So far more than \$33 million in advance payments have been paid

out to assist producers with cash flow, with more insurance support expected as the full extent of the damage is assessed.

AFSC also had a key role in administrating the AgriRecovery program in southern Alberta over the past few months, something we talked about at our last meeting. That program has paid out about \$4.3 million to producers impacted by the CFIA's bovine TB investigation near Jenner.

While AFSC's insurance programs have certainly been a focal point, the corporation's lending services have also continued to be an important tool for agricultural and rural-based entrepreneurs. With approximately \$500 million in annual loan support, AFSC is providing an important source of capital to farmers, to agri-based businesses, and to rural entrepreneurs to help fuel economic activity.

AFSC's lending program stems back to 1972 and is the result of the amalgamation of the Alberta Hail and Crop Insurance Corporation with two Crown lenders: the Agricultural Development Corporation, which provided loans to primary producers as well as the value-added agriculture processing sector, and the Alberta Opportunity Company, which provided loans to small and medium-sized enterprises engaged in value-added manufacturing. More than 85 per cent of the organization's current and historic loan portfolio is focused on rural Alberta residents, which AFSC defines as communities outside of Edmonton and Calgary. It is important to note that some of AFSC's lending activity that flows to urban centres to clients such as food processors also continues to have a significant impact on rural Alberta.

Unlike other financial institutions, AFSC's lending activities are not profit driven. The corporation's lending is targeted at filling needs not fulfilled by other lenders. This includes beginning farmers, food processing, and manufacturing and some commercial enterprises. These are more capital-intensive sectors and are often deemed to be higher risk by private-sector financial institutions so are not consistently served by affordable loan programs. AFSC ensures these vital contributors to the economy have stable access to capital at reasonable rates. To these clients AFSC has the ability to offer fixed interest rates for longer terms, lower payments, and reduced security requirements.

The Alberta farmer loan program, which serves both new and existing primary producers, continues to be AFSC's largest program. Because AFSC works closely with government, the corporation can also be used as a vehicle to implement government policy or support Albertans recovering from disaster. AFSC has been called upon to deliver a number of disaster programs in response to tragedies like the Slave Lake wildfires of 2011 or the southern Alberta flooding in 2013. This support included low-cost loans or deferred payments for affected businesses to allow them time to get back on their feet. Historically these kinds of short-term disaster relief programs are something that private-sector lenders have been reluctant to undertake due to the potential cost and the risk, but AFSC can and does put these crucial bridging programs in place at the direction of government.

8:40

But we also know that we still have more work to do to assure Albertans that AFSC is providing effective and efficient services to Albertans, which brings us to the Auditor General's recent recommendations to further strengthen AFSC's lending services. All four of the Auditor's recommendations have been accepted, and a detailed action plan has been provided to address the Auditor's findings. This action plan has been shared with the office of the Auditor General, and they have indicated to us that they are pleased with the approach and the pace. Although the action plan will take

several years to fully implement, there are interim milestones and commitments that will help ensure continued progress.

One of the Auditor's recommendations was that AFSC develop a more refined mandate and strategic objectives for its lending programs to help ensure that programs continue to remain relevant to stakeholders now and into the future. As per their action plan AFSC is conducting a formal market study over the next few months to further identify the lending needs and gaps in the agriculture sector. The organization is also consulting with its stakeholders to clarify mandate and strategic objectives for lending.

The Auditor General's second recommendation was that the oversight responsibilities of the department and the AFSC board be more clearly defined. In response, an updated mandate and roles document was signed last September between the department and the AFSC board. In addition to providing a very clear outline of roles and responsibilities, there is also a provision that requires that the agreement be reviewed at least once every three years to ensure that it remains current.

To address the Auditor's third recommendation, AFSC is refining its funding model to implement a system capable of accounting for and reporting product-specific costs. While AFSC's current system met all of government's budgeting and reporting requirements, the Auditor suggested there may be additional benefit from a more detailed model that can directly link each specific lending program to its associated costs. This would give government a clearer picture of how the costs for the overall loan portfolio break down. In the coming months AFSC will be working with the department and with Treasury Board and Finance officials to develop and vet options for an improved system.

Finally, AFSC has also added further rigour to the loan portfolio monitoring process in response to the Auditor's recommendation that the internal monitoring of the portfolio be separate from the delivery and adjudication functions of lending. While the Auditor did not identify any instances of inappropriate loans, the separation of the lending, monitoring, and delivery functions would provide further assurance to Albertans that the lending programs are operating effectively. As a result, a separate loan monitoring group has been established at AFSC to fulfill that very role.

I'm pleased with the progress that has been made to address the Auditor's recommendations. These improvements, coupled with enhancements that have been made to the organization's code of conduct as well as expense and procurement policies over the past year, will be important tools to help assure Albertans that AFSC continues to provide effective and relevant services to Albertans. AFSC is ready to move forward.

In April the minister announced the appointment of a new AFSC board of directors that features members with a wealth of experience in agriculture, agribusiness, rural entrepreneurship, and board governance. These skills will serve the board well as they continue to work closely with AFSC staff to help ensure AFSC lending and insurance programs keep pace with the evolving needs of the province. I'm looking forward to working with them and with the hard-working and dedicated staff at the corporation.

That concludes my comments, and our team is pleased to answer any questions you may have. Thank you very much.

The Chair: Thank you, Ms Yee.

I will now turn it over to the Auditor General for his comments. Mr. Saher, you have five minutes.

Mr. Saher: Thank you, Mr. Chairman. I'll not need those five minutes. I believe the deputy minister has done an excellent job of summarizing the recommendations we've made and the action

plans that are in place to deal with them, so I will give my time back to the committee.

Thank you.

The Chair: Thank you, Auditor General.

We will follow our usual time allotment format for a one-and-a-half-hour meeting for questions from the committee. The first rotation will be two rounds of questions of eight minutes each for the Official Opposition and government members, followed by five minutes for the third-party opposition. Our second rotation will be five minutes for each of these parties. With the agreement of the committee, any time remaining will be distributed equally among the three parties, with the final one to two minutes designated for outstanding questions to be read into the record.

We ask that officials provide their names before responding to questions. This is for the benefit of those listening online and for those instances where the committee members may be participating via teleconference. If an attendee in the gallery is called on to respond to the question, please identify yourself for the record before responding.

I will now open the floor to questions from members. Mr. Schneider.

Mr. Schneider: Well, thank you, Mr. Chairman, and good morning to everyone. I would like to thank those representing the ministry and AFSC for all the work that you do for Albertans. Now, I do have very limited time, so I'd just appreciate short, direct answers if you don't mind. I guess I'll start off with a few questions about the board if I may. In the written response we received last time we sat in PAC, we were told that the board was not paid after the dismissal. Is that correct?

Ms Yee: Correct.

Mr. Schneider: Okay. Thank you.

Last time we were in PAC as well, Mr. Knash commented that the CEO no longer sits on the board. Was that policy in place when the previous CEO was suspended?

Ms Yee: Up until the time that we had the new board, the previous CEO sat as an ex officio member of the board.

Mr. Schneider: Okay. Did any of those executives sit on the board as well?

Ms Yee: No.

Mr. Schneider: Okay. The three executives that were suspended were paid until their contracts expired. Is that right?

Ms Yee: Only one had a contract with AFSC, and that contract expired, yes.

Mr. Schneider: And it was paid until it expired?

Ms Yee: Yes.

Mr. Schneider: Okay. Can you tell us when that contract expired? Do you remember?

Ms Yee: March 31.

Mr. Schneider: Of 2017?

Ms Yee: Of this year.

Mr. Schneider: Were there any additional or will there be any additional monies paid out to these executives?

Ms Yee: No.

Mr. Schneider: Was there any additional compensation given to the bureaucrats that acted as the interim board?

Ms Yee: No.

Mr. Schneider: Okay. Has the new board worked with the department to set out oversight roles and responsibilities of both parts? I mean, we have the ministry and AFSC.

Ms Yee: The new, permanent board you're talking about?

Mr. Schneider: Yes.

Ms Yee: They have yet to have their first meeting. They were just announced. They will be having an orientation session and a first board meeting towards the end of the month, in the first part of June.

Mr. Schneider: Okay. There's a chair now. Is there a CEO appointed or selected?

Ms Yee: The board has the job of recruiting the new CEO for AFSC, so that will likely be one of their first initiatives.

Mr. Schneider: Yeah.

Recently the minister spoke of AFSC streamlining the inspection process to improve turnaround times for claims. When was this information shared with the regional rural offices? Is this now permanent policy, or is this just a special policy for 2017?

Ms Yee: Right. I'll start and maybe pass it on to Darryl.

Mr. Schneider: Sure.

Ms Yee: In light of the current circumstances AFSC and the department recognize that anywhere we could streamline processes without jeopardizing the integrity of the insurance programs, we would strive to do that. As conditions became a little bit more challenging and as we got closer to seeding season, AFSC implemented those practices. I'll maybe let Darryl speak specifically to them. Those have been communicated very broadly with what we call Team Alberta. This would be the crop commissions, and we have been in regular contact with them. We've started a process where we have a regular teleconference with them so that we get a chance to understand where their producers are at; they get a chance to hear from us, where we're at in trying to address their needs.

Mr. Kay: Thank you, Member, for the question. In terms of communication we started to roll out some of these streamlined processes early last week to our regional offices as well as to the commodity groups that the deputy minister talked about earlier. We are really looking to try to recognize the pressure that clients are facing and streamline things like reduced counts. We've also implemented some processes where we can take declarations over the phone in those circumstances where certain criteria are met or we have damage that's pretty consistent to an area. We're really doing our best to move through as many claims as we can. We've processed over 500 in the last four days, and we have basically all our inspectors working on this.

In terms of what might happen going forward, you know, these are pretty exceptional circumstances in terms of the crop that we have out there. We've not seen this level for a long time, almost a

million acres. My expectation is that in terms of reduced counts, we'll likely go back to the processes that we've had in place, but – you know what? – we're always reviewing those processes anyway on an annual basis, trying to balance making sure that we're working with clients but also we're protecting the integrity of the program.

8:50

Mr. Schneider: Thanks.

I just have another question. Adjusters: did AFSC or the ministry determine that adjusters would be able to go to an area and look and see acres and acres and acres that are all in the same shape and write off larger amounts of acres, or do they have to go to every farm and do every field?

Mr. Kay: Again, thank you. We're trying to provide a little more flexibility in terms of writing off crops. Again, we respect that we have partners in this program, the federal government, and we have to adhere to certain processes. Work still needs to be completed, but at the same time we're trying to be flexible. We're trying to move through inspections as quickly as possible.

Mr. Schneider: Thanks.

The 2016 Auditor General's report on page 29. In response to questions concerning the lack of incentives to track the cost of its individual lending products, AFSC responded that they have been working on "a practical model to facilitate allocation of lending costs." Now, you say that this will be implemented in the 2017-18 fiscal year. Just for my own brain, when does that fiscal year start, and is that still the plan?

Mr. Kay: Thank you for the question, Member. The fiscal year begins April 1, 2017. What needs to happen in the meantime – we've developed an internal way to track costs. In the past we've tracked costs on the lending basis as a whole, but what the Auditor General identified was a need, I think, to further refine that process so that when we receive funding from the government, we're in a better position to identify – an example I always use is the beginning farmer program, which is a very popular program with producers. It's a 1 and a half per cent reduction in interest rate for a five-year period, and that makes up a significant portion of our funding. Unfortunately, the way our systems are set up, it's difficult for us to track that.

Those are some of the things that we look at in terms of changing our model so that we can identify those costs. We're in a position where we're starting to track those costs now. What needs to happen in the meantime is that we need to have some discussions with both the department and Treasury Board to make sure that they understand the direction we're going and that they, you know, are comfortable with that direction.

Mr. Schneider: So in a short answer, have you set up meetings to discuss those very things you just said with those two other entities?

Mr. Kay: I've had initial discussions with the department, but we've not had discussions with Treasury Board. Part of the reason for that is that, obviously, we have a new board in place, and there's some work that they'll need to do in vetting that work and reviewing that model as well.

Mr. Schneider: Thank you.

On page 30 of the same report I asked previously about the AG's concern that "AFSC does not have a function independent of the loan approval process to monitor the performance and quality of the loan portfolio." Now, AFSC responded that their risk business area

has been given the task of quarterly reporting to senior management and the board of directors. Will those reports be available to the public, and if not, why not?

Mr. Kay: I don't believe we've made that information available to the public in the past, but we certainly can on a go-forward try to identify some of that information in terms of – you know, our annual report is pretty detailed in terms of what we disclose for the public, things like our allowance for doubtful accounts and things like that, so we do disclose a lot of information there for the public to review.

Mr. Schneider: Thanks.

The Chair: Thank you, Mr. Schneider.
Member Loyola.

Loyola: Thank you, Chair. My questions are going to be directed at the deputy minister. I want to first of all thank you all for being here this morning to answer these questions. The Auditor General noted on page 21, "AFSC has adequate procedures and controls for its day-to-day credit administration activities, which [of course] include loan disbursement, loan processing and collection, collateral documentation and interest calculation." Can you elaborate on what processes are in place to monitor these systems and whether the department plans on strengthening them?

Ms Yee: Thank you very much, Member, for the question. The department actually, as I mentioned in my opening comments, has a mandate and roles document that we've signed in conjunction with the board of directors of AFSC. In that mandate and roles document it actually defines the responsibilities back and forth and the accountability back and forth between the two. As part of that ongoing relationship we would be monitoring and checking in with the board, so there's a level at the board where we would do that accountability and monitoring. I also have regular meetings with the CEO as deputy minister. At those regular meetings we would identify and check in on a number of issues and concerns and regular reporting on things. So we do have that built into our process of checking in.

Another level of check-in would be that our CEO from AFSC also participates in meetings that we as an executive team regularly have with the minister. At that point, too, we would have some regular reporting back to the ministry.

Loyola: Okay. Perfect. Thank you.

On page 22 of the report it states, "The department's and the board's oversight roles and responsibilities in relation to the lending program are not clearly defined and documented." Could you please explain what steps have been taken to ensure that AFSC has stronger oversight systems in place when it comes to this?

Ms Yee: Is your question about AFSC board oversight or department oversight? Sorry.

Loyola: Well, it's the department's and board's oversight and responsibility for the lending program.

Ms Yee: Right. Okay. Yeah. As I would say again, the mandate and roles document clearly outlines what the oversight responsibilities are and what the responsibilities are in checking in at the deputy minister level, at the ministerial level, the check-in with the CEO and with the board levels, so all of that is defined. I would just expect, too, that with the new, permanent board coming on, they may want to review the mandate and roles document, and if they . . .

Loyola: Is it possible for you to go into a little bit more detail? I mean, I understand that that exists, but I'm looking for a little bit more detail if you don't mind.

Ms Yee: Yeah. I certainly can.

Loyola: Thank you.

Ms Yee: Just flipping to my notes on that. Here it is. Okay. In the mandate and roles document – and this most recent version was signed off last September – there's an entire section that goes through and defines the duties and responsibilities of each of the parties. For example, it would identify the duty and responsibility of the minister of the department, the deputy minister, and the department overall as well as the AFSC board, the AFSC board chair, the AFSC board president. As it details those responsibilities, they include responsibilities for regular meetings. They include responsibilities for regular reporting. They include responsibilities for giving advice on issues. All of that helps to establish sort of a clear line of accountability between the department and AFSC.

In addition to that, over the course of the year we'll have different planning sessions. For example, if we have a new program coming on or if, as I mentioned in my opening comments, the government is looking at having AFSC deliver something under our policies, then we would work with them to develop that.

I think a very good example would be the bovine TB example. In that case, we brought together all of the parties and the AgriRecovery program, which is a federal-provincial program, to assist our producers in the case of situations like this. We worked with AFSC. They were at the table, the federal government, and ourselves in determining what would be the criteria in order to have monies move to producers to assist them. AFSC also, in addition to participating in that, actually administered the movement of the money to producers, and they also participated in the meetings on the ground that we had with the communities to answer questions. In that case – you can see from that example – we worked very closely together.

But we would expect a report to come back from AFSC on all the administration of the program and details of understanding that. That would be an expectation that both the provincial government would have as well as the federal government.

Does that help?

Loyola: Perfect. Thank you very much.

I want to share the rest of my time with Member Littlewood.

Mrs. Littlewood: I have a question. Since the program was started in 1972 under its predecessor companies, Alberta has modernized, of course. The AG was noting that the market conditions today are substantially different than those in 1972, so given that AFSC does not have systems to periodically re-evaluate the relevance of its lending products, does the new board or department have plans to modernize these systems to ensure that AFSC's programs are meeting the changing needs of Alberta's agricultural sector? I was wondering if you could also comment a bit more broadly and with some detail on how your re-evaluation works with your insurance as well.

9:00

Ms Yee: Okay. I'll start and then ask Darryl to fill in with some additional details. You're quite correct in that being able to keep up with what the needs and demands of modern agriculture are is very important. So two things. Directly in response to the

recommendations of the Auditor General, AFSC will be undertaking a market study to better understand what the current needs and perhaps the future needs are. That would be work of the AFSC. Coupling that with the department – in the department our job is to stay connected with our stakeholders, understand what the needs are as they respond to, for example, a priority that the government has right now for diversification, so economic diversification, agricultural diversification – as we pursue those kinds of goals, are the programs at AFSC supporting our achievement of those goals? So we would marry those together.

Maybe I'll ask Darryl to comment in a little bit more detail, in particular on the market study.

Mr. Kay: Sure. Thank you for the question, Member. Absolutely, things are always changing in this industry. When we look at the last four or five years in agriculture, it's been a very robust market. There are a lot of financial institutions that are competing for business. One of the advantages that we have and one of the focuses of our corporation has always been on the rural community, whether it be primary producers or our commercial program, which is primarily focused on the rural community as well. What we try to be is that really consistent and continuous access to capital for clients because market conditions will change and other financial institutions will enter and exit the market. What we pride ourselves on is the fact that we'll always be there for producers and we'll always be there for rural communities, and that will never change. I wanted to start there just as a discrepancy between . . . [A timer sounded] Do we have a few minutes? Just to talk about the market assessment, we have a pretty comprehensive plan in place in terms of . . .

The Chair: Thank you.

Ms Yee: We can come back to that.

Mr. Kay: Okay. Sounds good.

The Chair: Mr. Gotfried, if we can start your five minutes.

Mr. Gotfried: Thank you, Mr. Chair, and thank you to our representatives here for taking their valuable time. I just have a few questions, some high-level questions to start with. Many of AFSC's programs fall under the Growing Forward 2 initiative, and this was implemented back in 2013, following the expiration of the original Growing Forward initiative. Growing Forward 2 is a joint federal-provincial-territorial funding agreement. With a change in both provincial and federal governments do you see any risks to the continuation of this program beyond 2018, and how might this affect your current loans outstanding?

Ms Yee: Well, I'll start, and if Darryl wants to give some additional comment. We're actually very optimistic because we're currently in discussions with the federal government on the next Growing Forward program. They haven't allowed us to call it Growing Forward 3 yet, but we are in negotiations. In fact, this afternoon the minister is travelling to Ottawa – there is a ministers' meeting – to meet with the federal minister, and they'll be discussing specific elements of what we want to see in the next program.

Our interest is to make sure that we have good continuity between Growing Forward 2 and whatever the next program is. Also, our interest is that for the province to have enough flexibility, we certainly want to support things in common across the country, but we want to have enough flexibility to address the priorities that the province has. So we're very optimistic. I won't lie; there are some bumps along the way that we're going to have to get through. The

whole notion of Growing Forward is to have federal-provincial-territorial agreement, and, as you know, getting agreement by that number of parties can be challenging.

We're very optimistic. Our goal is that by July of this year, ministers would sign off on a multilateral agreement. These would be all the common elements for the next agreement. Then we would start immediately on our bilateral agreement, the specific details between ourselves and the federal government that underlie . . .

Mr. Gotfried: Thank you. I think that's adequate because we're actually supposed to be looking backwards rather than forwards, but I appreciate your comments on that.

I'm trying to understand how AFSC fits into the lending market. We have ATB and credit unions attempting to target smaller businesses and, in some cases, smaller communities which may not qualify for loans, the businesses in those areas, from other financial institutions. So I'm trying to understand how AFSC fits into the overall picture and whether you consider ATB, as another publicly funded lender, to be a competitor or complementary to what your organization is trying to achieve.

Ms Yee: I'll start and maybe ask Darryl to continue. Certainly, I think that in my opening comments I had sort of differentiated AFSC from other lenders. AFSC is not in the business of making profit. I would say that ATB is in a different position. I think our interest is to provide lending for these areas of agriculture that tend to be very high capital intensive, where the risk is higher for people. AFSC fills that niche.

Mr. Kay: I'll just, I guess, add to that. Really quickly, just to go back to Growing Forward 2, I just want to make sure we're understanding. The lending program is funded completely by the provincial government, so there's no federal funding for that particular program.

Mr. Gotfried: Okay. Thank you.

Mr. Kay: Just to add very quickly to the comments, again, it's a competitive marketplace, for sure. Really, the focus for our organization is on things like beginning farmers, developing farmers. We have what we would call a fairly significant gap in terms of commercial and value-added that we try to fill, those more high-risk clients in rural communities that typically financial institutions avoid. We're trying to fill that gap. Again, I've said this before, but I'll continue to say that, you know, it's really about providing that consistent capital to producers and to rural communities.

Mr. Gotfried: I understand that at one point you were a lender of last resort, that, for example, clients needed to be turned down by a traditional lender prior to seeking a loan from AFSC. Is that still the case?

Mr. Kay: We work very closely with other institutions. Our commercial lending program is our highest priced program, you know, so the expectation is that we know that they're having discussions with other institutions. We're not a deposit-taking institution. We know that every client has a relationship with another bank. Our focus on the commercial side is typically on those start-up companies, those companies in their early stages. We have no prepayment penalties on our loans, so we're quite happy to see clients build their companies and move on to other financial institutions.

Mr. Gotfried: Okay. As a lender of last resort, obviously, there's going to be a higher inherent risk. How do you manage and mitigate the inherent risk involved with lending to those individuals and companies that are not being serviced, often for good reason, by the traditional financial institutions?

Mr. Kay: As a starting point, as I mentioned before, we do price . . . [A timer sounded]

The Chair: Okay. Would you like to read that one back into the record later, or do you want him to respond in writing?

Mr. Gotfried: Respond in writing later, or maybe we'll go back to it.

Mr. Kay: Sure.

Mr. Gotfried: Thank you.

The Chair: Thank you, Mr. Gotfried.
If we could start with Mr. Schneider.

Mr. Schneider: Thank you, Mr. Chairman. Can I read four questions into the record quickly and then move on?

The Chair: I'd rather you didn't.

Mr. Schneider: All right.

The Chair: Thank you.

Mr. Schneider: Okay. On page 73 of the AG's report, now that I've gotten new marching orders, he talks about how in the June 2013 audit the following two observations were made to the board: "improve its documentation of the business purpose supporting travel expenses" and "implement a formal process to report senior executive expenses to the board." Are those two recommendations now in place for the newly appointed board?

Ms Yee: Yes, they are. The interim board at the time reviewed all of those policies and reviewed how expenses were reported. We put some additional checks in place and assured that the board would have detailed reporting.

Mr. Schneider: Okay. Listen, we've been told that an AFSC employee was sent to Spain to receive training and education. Is that true?

Mr. Kay: That's correct. There was an MBA that was taken by an employee that is no longer with our corporation.

Mr. Schneider: Okay. I believe it was \$110,000 for a person for two months' training. Is that correct?

Mr. Kay: That training occurred over a two-year period, I believe, or 12 to 18 months, somewhere in that time frame.

Mr. Schneider: Okay. So the two months: that amount of time in Spain had nothing to do with the training, or was it part of it?

Mr. Kay: The time that was spent in Spain related to that training program. Correct.

Mr. Schneider: Okay. But the \$110,000 may have been for the entire training program of two years?

Mr. Kay: That is correct.

Mr. Schneider: Okay.

Mr. Kay: That includes travel; that includes the cost of that program.

I think it's important to talk about some of the changes we've made in our training and development policies as well as in terms of firming up return service agreements. We're having discussions with the Auditor General now about maximum amounts for training. You know, we want to be competitive in terms of allowing our staff to be trained, but at the same time we recognize that it's good practice, I think, to look at some of these things that we're reviewing right now.

Mr. Schneider: Okay. The \$110,000 may represent the salary of the individual?

Mr. Kay: The \$110,000 represents the cost of the training and cost of travel.

Mr. Schneider: Okay. This audit, on page 73, was done in 2013, and in 2014 it was announced that a review of the ABCs determined that the Auditor General would postpone their audit in order to allow the then government to finish its review and for AFSC to make any necessary changes. I'd just like to ask the Auditor General a question. In hindsight, would you have completed your audit given what you know now, and will you use this knowledge to complete any further audits despite the possibility of it being redundant?

9:10

Mr. Saher: I believe I understand the intent of your question. I don't think I will speculate as to with hindsight what we might have done. I mean, that's just speculation. I think there was a particular circumstance here. We made a judgment at the time that there was other review work going on so that in the best interests of Albertans we were not going to duplicate that at that time. I think we will always be guided by that philosophy to look at a particular situation and make a decision, the best decision we can make at that time.

Mr. Schneider: Thank you.

On pages 73 and 74 of the Auditor General's report he stated that the government's review of its ABCs was almost complete, but the AG had been "unable to obtain the results of that review." Will the government table a copy of that review even if it's incomplete so that we could have a look at it and review it?

Ms Yee: I'm not sure which review you're referring to now.

Mr. Schneider: On page 73. This was the review done in 2013, and in 2014 it was announced that the review of the ABCs determined that the AG would postpone.

Ms Yee: Yeah. Member, I'll have to follow up with you. I don't believe the department even received a copy of that early review.

Mr. Schneider: Okay. Well, let's do that.

Ms Yee: I can follow up.

Mr. Schneider: Okay. Page 74. In June 2015 the Auditor General recommended that the AFSC improve its whistle-blower protection process. Has this recommendation been implemented, and how has it been implemented?

Mr. Kay: Thank you for your question, Member. We've made a number of changes to our whistle-blower program in the last few years. Our main internal audit manager now heads up that program and is independent and reports directly to the audit committee, so that individual is responsible for monitoring that program. We

basically brought that program in line with government regulations. We understand that there are more changes, that I think are being announced more recently. Again, we'll review that program to make sure that we have met the requirements.

Mr. Schneider: Okay. Thank you.

It was also observed at the same time by the Auditor General that the AFSC should "better document its assessment of the performance of its reinsurance contractor to . . . support decisions to renew the contract." Given what we know now about the unethical gifting by some brokers and as the minister was unable to answer this question at his press conference last week, is AFSC still doing business with that broker?

Ms Yee: No.

Mr. Schneider: Okay. On page 21 of the Auditor General's report the Auditor notes that the department of agriculture has never fully outlined the expectations for the lending program to AFSC. What are the expectations for the program?

Ms Yee: I'd like to clarify, Member, in answering that question, that expectations have been communicated to AFSC. I think that where we fell short was in documenting that in writing consistently. Oftentimes in our planning sessions and our meetings we would communicate to AFSC what our desire was for the objectives of the lending program, and I think we're very committed to making sure that we do a better job of capturing that and documenting that in writing.

In terms of expectations for the lending program itself I don't think it has necessarily changed at the high strategic level that we want to continue to provide access to capital to our agricultural producers. I think the market study will help inform and give us a better understanding of how we might want to adjust and change some of the details of our lending program.

Mr. Schneider: Okay. What studies or determinations were done or are in progress to determine the credit needs of Alberta farmers?

Mr. Kay: Thank you. We're beginning a pretty thorough market research where we are surveying a number of our clients. We're meeting with industry groups. We're meeting with other financial institutions to try to determine kind of where we fit in that marketplace, to try to validate some of the things that we believe are where we should be. That work is going to start right away and will continue for the next three to six months.

Mr. Schneider: All right. I'm just going to bounce back here. I haven't got much time left. What number or percentage of AFSC loans go to agriculture, agrifood, and, I guess, commercial loans?

Mr. Kay: Approximately 80 per cent goes to farm lending, and the remaining 20 is between the commercial program and the value-added program. Overall, like we've said before, in any given year it's typically higher than 90 per cent in terms of commitment to rural communities.

Mr. Schneider: Okay. So what is the default rate and the delinquency rate on the loans? [A timer sounded] That's my timer.

The Chair: Thank you. If you could respond in writing with the answer to that question, I'd appreciate it.

If we could go on to Mrs. Littlewood.

Mrs. Littlewood: Thank you, Chair. If you could just finish your points that you were making about what you can do to re-evaluate

the relevance of your lending products and compare that to how you currently have review processes in the insurance side of it, and if you could keep it as short as possible, I'd really appreciate it because I have to pass it over to my colleague.

Mr. Kay: Sure. I've mentioned already – thank you for the question. In terms of relevance, you know, again, we are reaching out to the market, industry groups, to clients. We're doing focus groups. We're doing surveys, and we'll gather that information over three to six months. The great thing about that process is that it will be repeatable, and it will be something that we can start to do on a regular basis, and we can start to, you know, track trends. In terms of the insurance programs we're reviewing on an annual basis – insurance, AgriStability, and ensuring relevance – I use an example this year in terms of the unseeded benefit. Obviously, the producers have been impacted by unharvested acres. As part of I guess in this case a three-year review, we've decided to make some changes to increase some of the benefits for that particular program. So we're looking to, hopefully with federal government approval, move forward on those in 2017.

[Mr. Dach in the chair]

Mrs. Littlewood: Thank you.

The Deputy Chair: Mr. Nielsen, carry on.

Mr. Nielsen: Thank you, Mr. Chair, and through you to our guests. It's been almost a year since the former board was dismissed by the Agriculture and Forestry minister for what he called a culture of entitlement for a lack of board oversight on senior executives' expenses, procurement activities, and a weak code of conduct. Given the Auditor General's concerns what steps has the department taken to address accountability and transparency systems?

Ms Yee: Okay. Thank you very much. We rely very much on having good governance at the board level. So I think the work that that minister did in appointing an interim board was to specifically look at the code of conduct, look at procurement policies, and ask in his mandate to the internal board to review and improve oversight and make any adjustments where they were needed, so the interim board did do that. We reviewed the code of conduct. We strengthened a lot of elements in it. We reviewed the procurement policies and strengthened those. We also made some suggestions, which AFSC has followed up on, to improve compliance with policies. We felt that that potentially was an area that could also be strengthened.

[Mr. Cyr in the chair]

The oversight of that was given to the interim board. This will now pass on to the permanent board. The expectation would be that that oversight continues there. In terms of the department's role, then, we would continue to monitor, and if the minister, you know, might see some things that might be of concern, he would address them directly with the board, but that is really the job of the board to do that, and that mandate has been given to the board.

Mr. Nielsen: Okay. Have there been any other changes made inside the AFSC to combat this culture of entitlement?

Ms Yee: You know, actually, when the interim board took over its job, one of the areas that we were quite impressed with – actually, the policies were quite robust. I think compliance was an area we thought was an issue, so we tightened that up. AFSC has a very strong internal audit function of their own, and the board regularly

gets reports on their work. It's interesting to note that the internal audit program of AFSC is both reactive and proactive and, I would say, leaning higher on the proactive side of things to look at areas where we might have vulnerabilities, where there might be a level of risk. So the interim board was quite pleased to see the level of internal audit going on, and I think that will serve the organization well.

Mr. Nielsen: Excellent.

Chair, I'll pass my remaining time to Member Turner.

9:20

The Chair: Dr. Turner.

Dr. Turner: Thank you, Mr. Chair. As was noted, the minister has appointed a new board, and from my observations I'm actually very impressed with the qualifications and the experience and the diversity of that board. I think its first order of business must be to get a new CEO in place, and I'm just wondering what the plans are for that.

Ms Yee: Yes. Thank you, Member, for the question. You're quite correct. Getting a new permanent CEO would be the first step for this board once they get oriented. What I've suggested to the new chair is to start by looking at the current position description of the CEO's role and that the board take some time to review that position description. I think it's really important in light of some of the work that's been done to look at, to borrow from Ms Littlewood's comments, modernizing the programs, that AFSC can review the position description with that same thing in mind. What is the kind of leader we need for a modern AFSC going into the future?

So it'll be their job to go through the process of updating the position description, and they would then go through a search process to find a candidate and a permanent CEO. We expect that that would – well, we're looking forward to that being completed in very short order over the next couple of months.

Dr. Turner: Thank you very much. On page 26 the AG noted that the “program's 2015-16 performance measures proposed by management and approved by the board . . . were not developed through a structured performance measurement framework that links the resources used by AFSC to the strategic results.” Does the new board intend on reviewing the performance measures to ensure they are strategic and focused on the program's objectives and results?

Ms Yee: I'll look forward to the new board's discussion on that, Member. As they get oriented to the overall business of the board, those kinds of areas would be identified for them to put some focus on. I think that's very much in support of sort of the accountability back to the ministry, and to improve the accountability, we need to have really robust performance measures. I would expect that that might be something that they would be taking a look at. I can't speculate as to where in the order of priority that might be, but certainly performance measures are of significant interest to the ministry.

Dr. Turner: Thank you.

I'll pass my time to Member Littlewood.

Mrs. Littlewood: Thank you. The Auditor General stated that “AFSC has not carried out an in-depth analysis to identify the sectors that are underserved by commercial lenders and need encouragement to promote economic development.” Given that rural Alberta is such a huge economic driver for Alberta, is the new

board of directors taking steps to identify gaps that are in commercial lending?

Ms Yee: Again, early days, since the board has not met. I would think that that would be a key issue that the new board would look at. I know that in my early conversations with the board chair she was keen to make sure that the programs at AFSC are responsive. So I believe the new board would undertake to do that.

Mrs. Littlewood: Okay. Thank you.

As noted in the AG report, AFSC provides “financial and management assistance to qualified small and medium-sized Alberta businesses that were unable to borrow with reasonable terms from other commercial lenders.” Has this lending led to rural economic diversification in Alberta, and do you have any examples of stories that have come from the synthesis of AFSC and rural Alberta?

The Chair: Member, would you prefer that they respond to that in writing?

Mrs. Littlewood: Yeah. That’s fine. Thanks.

The Chair: Thank you.

Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chair. Just wanted to clarify something. We spoke briefly about the term “lender of last resort.” Is it correct that you are the lender of last resort and that they have to have been turned down, or is that not a requirement for someone seeking a loan from AFSC?

Mr. Kay: We’re not necessarily receiving letters where they’ve actually been turned down. But the way we price that particular program, I think, shows that, you know, we’re encouraging other banks to take that business. We’re trying to fill the gap in those situations where the risk is too high. That’s an area that we can step in.

Mr. Gotfried: Okay. So there’s some latitude there.

Mr. Kay: That’s right.

Mr. Gotfried: You referenced a beginning farmer lending program, which, I understand, was in place in the past. Is it still in place for new entries into the sector who lack any track record and previous experience?

Mr. Kay: Yes, it is. That program provides a one and a half per cent interest rebate for five years, up to \$500,000 for a husband and up to \$500,000 for the wife as well.

Mr. Gotfried: Okay. That leads me to the next question. How do you determine the discount versus commercial lending interest rates and the relaxation in lending terms for the various subsectors you lend to?

Mr. Kay: Our interest rates are fixed, so we rely on an Alberta provincial borrowing rate, and we apply a margin to that, so in terms of our farm loan program we apply a margin of 1.75 per cent. When we look at some of our other programs, we see value-added, for instance, is 2 and a half per cent, and commercial is 4 per cent. We don’t negotiate on rates with clients. We’re a little different than financial institutions.

Mr. Gotfried: So it’s by subsector or type of loan.

Mr. Kay: That’s right.

Mr. Gotfried: Okay. AFSC allows, you mentioned earlier, customers to repay loans in part or in full at any time without penalty. Can you explain the rationale behind this?

Mr. Kay: I think in terms of the farm loans we like to provide flexibility to clients. Obviously, we want to promote producers, we want to promote rural communities, but client retention isn’t the focus for us. We want to allow them to be able to pay off loans. It’s especially prevalent on the commercial side when we talk about those corporate companies that maybe grow into a situation where they are more attractive to other banks, and by allowing them that flexibility to repay without penalty, they can go to other institutions.

Mr. Gotfried: I think it’s a good addition.

Mr. Kay: It is.

Mr. Gotfried: What was your loan default rate, for example, in 2016? Do you know what your default rate is?

Mr. Kay: I don’t have the exact information in front of me, but I can speak in general terms. On the farm side it’s extremely low. We’ve had writeoffs under .1 per cent, I think, for a number of years. That speaks to that industry, and land values have increased.

On the commercial side we see more pressure. We’re seeing writeoffs increase slightly, but again they have been in between the 1 to 2 per cent range, and we’ve been pretty competitive in terms of what other institutions are facing. We certainly face more pressures now with some of the economic conditions that we’ve seen the last two or three years, but again I think that’s to be expected. I think we’ve priced that risk into our commercial loans, and if we’re not taking that risk, you know – there are the losses that are to be expected.

Mr. Gotfried: What is the difference from the historical averages to what you’re seeing as a current default rate on some of your high-risk loans?

Mr. Kay: We’re seeing some increases in the last few years. In terms of arrears over the last three years we’ve seen them kind of go up from the 5, 6 per cent range to 9, 10 per cent currently. They’re steadying a bit, but you know we’re working really closely with clients. We’re helping them restructure, we’re helping them take interest-only terms, things like that to help them through this period and hopefully to move on and be stronger when they get through that.

Mr. Gotfried: Have you factored into your portfolio that additional risk that comes with the current economic downturn in spite of the green shoots we apparently see sprouting in fields across Alberta?

Mr. Kay: We have. You know, in terms of some of the work that we do at year-end and with our audit, we’ve identified, given the economic conditions, that there is some additional risk that needs to be reported on.

Mr. Gotfried: Okay. Talking a little bit more about strategy, is AFSC working with Economic Development and Trade, particularly in areas affected by the climate leadership plan and coal shutdown, and does AFSC have any plans to measure the impact its lending program has on these communities and other rural economic development opportunities in other communities in terms of incremental or diversifying benefits?

Ms Yee: Maybe I might start off with that, and Darryl can add if he'd like.

Mr. Gotfried: Yes, please do. Thank you.

Ms Yee: I had mentioned earlier, too, that one of the benefits that we have with having AFSC in our family is that government policy can make use of them as a vehicle when needed. Currently we haven't looked, in terms of the climate leadership, at the coal communities just yet, but certainly if a need arises there and government sees fit, then we would work with AFSC to develop something there.

Mr. Gotfried: Thank you.

The Chair: Thank you, Mr. Gotfried.

We'll go on to Mr. Schneider, with five minutes.

Mr. Schneider: Thank you, Mr. Chairman. We were talking just right there about default on loans. Of those defaulted loans what percentage aren't agri-related?

Mr. Kay: I don't have that information in front of me, but I'd certainly find that information for you. You know, we see pressures in rural communities in things like rural accommodations, for instance, that wouldn't necessarily be directly related to agriculture, but we could find out that information.

Mr. Schneider: I appreciate it.

AFSC was designed around the agricultural industry, so what is the purpose, I guess, of loaning for nonagriculture products like commercial loans?

Ms Yee: I'll start, if Darryl has something to add. If we go back to the Agriculture Financial Services Act, where the mandate is given to AFSC, there is a section in the act that identifies and gives a mandate to AFSC to give agricultural development loans but also a section that says: other nonagricultural loans that would assist in economic diversification and economic growth, so those kinds of loans would fall under that category.

9:30

Mr. Kay: And, again, with a focus on rural communities primarily. They may not be directly related to agriculture, but I think we always have that focus on rural communities, and it's important.

Mr. Schneider: Okay. Thank you.

On page 24 the Auditor General mentioned AFSC's growth targets. What was the logic behind these targets, and is AFSC still trying to increase the size of its lending portfolio?

Mr. Kay: I think, as a result of this audit, we've asked ourselves a number of questions around where we should focus. When we've looked at growth targets in the past, I'm not sure there was a lot behind those targets, on why we were focused there. I think it's much more important to understand where we should be lending, where we're providing the most value, and where we're the most relevant, and that will hopefully come out in some of the work we do on the market analysis in the next six months. But it's less around growth. It's more about filling gaps. It's more about providing value.

Mr. Schneider: Okay. Thanks.

We talked about this a little bit already, and I think it was in your preamble, Ms Yee. On pages 23 through 30 the Auditor General issued four main recommendations for AFSC. I guess my question is: which of these is the top priority for the board or the agency?

Ms Yee: I think we take very seriously the recommendations of the Auditor General, and I would say that they're all of equal importance and high priority. The action plan that was developed by AFSC would reflect the importance and priority we put on all four recommendations.

Mr. Schneider: Three of the recommendations have been started, and one has not. Is that correct?

Mr. Kay: Work has begun on all four recommendations.

Mr. Schneider: Work has begun on all four. Okay.

I think I'll turn it over to my colleague Mr. Hanson.

Mr. Hanson: Thank you. I've got a fairly specific insurance question if I could. My understanding is that farmers buy insurance, and they pay premiums by the acre and crop that's planted. Is that correct?

Mr. Kay: Yes.

Mr. Hanson: The issue that we're having is that because of last year's bumper crops, some people had harvested 50 per cent of their crop. So if you take a thousand acres, they still had 500 acres left in the field. But after the inspectors come out, they say: well, you've harvested your quota of grain, so we're not going to insure that other 500 acres. They don't take into consideration that last fall some of these guys spent anywhere from \$40,000 to \$100,000 on drying that grain. Do you think that's a fair assessment, if people are paying insurance by the acre, that they're not being insured for the full acreage that they planted?

Mr. Kay: I might have Chris Dyck, our VP, who has a lot of experience in insurance, speak to this. But at a high level, you know, when we look at our program, it's very clear. We have coverage levels. We have premiums that were purchased up to those coverage levels. And you're right. There were some strong yields in this last year, and we have a number of situations where there are unharvested acres for clients, but they're also over their coverage levels. We certainly understand the frustration in terms of some of those additional costs, but in terms of the integrity of the program, I think it's designed to respond to situations like this.

I'll let Chris speak to this.

The Chair: Can you please provide your name and your job title, please?

Mr. Dyck: Chris Dyck with AFSC. The basic premise for crop insurance is that it's a production guarantee, so we charge premiums by the acre. We also look, in your example, at that thousand acres. Producers can buy 50, 60, 70, or 80 per cent coverage based on what they would normally produce on those thousand acres, and if they achieve that yield guarantee on the first 500 acres that they have insured, they've basically exceeded their coverage. It's really a question of, you know, a total production guarantee for those acres insured.

The Chair: Thank you, Mr. Hanson.

Ms Miller.

Ms Miller: Thank you, Chair. The Standing Committee on Alberta's Economic Future submitted a report last month highlighting recommendations on growing and diversifying Alberta's agrifood and agribusiness sectors. Recommendation 2 in the report is that the government improve access to capital for small- and medium-sized business to enable them to start and grow businesses and

[that the government] consider increasing the \$5 million cap on value-added and agribusiness program loans provided through the [AFSC].

As was previously noted, the lending portfolio grew from \$1.01 billion in 2007 to \$2.16 billion in 2016. Can the deputy minister discuss what effect an increase on the cap would have on the portfolio in terms of total dollars as well as whether the number of businesses receiving loans would increase?

Ms Yee: Thank you very much, Member, for the question. As you said, the increase is a response to agricultural diversification. When we look at the value-added sector in diversification, the capital needs for those kinds of projects are quite a bit more significant. In terms of being able to support diversification, we've got to take a look at that limit. In terms of, you know, being able to predict and evaluate what that would do to the overall total of loans, it's difficult to know, but I think if we're successful in our efforts to grow the agribusiness and have more value-added businesses, I would expect that we might see a little bit of growth.

I think the other thing to consider is that sometimes some of these businesses would be able to access lenders in the private sector as well. So I think the significant role that AFSC can play in that, because the demand for capital is greater, is in syndicating and bringing together the various lenders to help meet that need.

In terms of predicting whether it would increase, we might see a little bit of increase. I think the more important thing is: can we get capital to the right kinds of projects in order to see a greater level of diversification?

Ms Miller: Thank you.

The Standing Committee on Alberta's Economic Future also recommended that the government pursue strategies to move Alberta products up the value chain and encourage business development, including evaluating and expanding current successful plans for specialty products, niche markets, and value-added production, processing, and export. Given that the AFSC is providing capital to agriculture producers and agribusinesses but the program lacks strategic direction, could the implementation of this recommendation provide measurable strategic direction?

Ms Yee: Thank you, Member, for the question. I think this whole area of giving better direction or more clarity on direction is informed by a number of things, and certainly that report and those recommendations would help inform the kind of direction that we would give back to AFSC. I think there's a lot going on in the diversification file right now. Economic Development and Trade is moving quite aggressively and has asked us to develop a bit of a sector strategy for how we would actually grow the diversification area, so that would be another piece. Our own sector strategy would be another informant in terms of informing the programs at AFSC.

I might invite my ADM, Dave Burdek, to comment a little bit because he holds that file on trade and looking at some of the opportunities as we look at supporting our small and medium-sized businesses in order to get into export markets. I think this might have some implications back and forth for the kinds of programs that we might want to look at.

Mr. Burdek: Thank you, Member, for the question. I'll just make some general comments in terms of moving agricultural businesses and the industry of agriculture further up the value chain. In Alberta the food and beverage manufacturing sector is actually the largest manufacturing sector in the province. It actually employs the most employees, even more than the oil and gas manufacturing sector, as an example.

You mentioned access to capital as being absolutely critical and the linkage between the borrowing limit of \$5 million to \$25 million for AFSC. As these businesses become more sophisticated and as they grow, their access to capital actually increases, and it's not uncommon now to have small and medium enterprises that have needs for capital financing that exceed the \$5 million. So it really does fit into that niche for borrowing that was talked about.

Ms Miller: Thank you.

The Chair: Thank you, Ms Miller.
Mr. Gotfried.

Mr. Gotfried: Thank you, Mr. Chair. We heard from the Auditor General that there was a concern on the lack of strategic direction in terms of the portfolio and lending direction, and it's hard to measure benefit when the objectives are unclear. I see about 10 per cent of your lending portfolio is in categories such as accommodations, other services, trade, retail and wholesale, and professional services. How do you see these contributing to agricultural and rural economic development?

Mr. Kay: Again, primarily when we look at some of those areas, they are rural based. So not directly linked to agriculture, for sure, but much of our accommodations, for instance – I would say almost all of our accommodations – would be in a rural area. Although it may not be agriculture, again, it stresses that focus of our commercial portfolio into rural communities.

9:40

Mr. Gotfried: So you're fairly focused on ensuring that there is a crossover in terms of that benefit.

Mr. Kay: Absolutely.

Mr. Gotfried: Also, I was trying to reference here – I know there was some reference by our research team about some lending, obviously, in some larger urban centres. How or when would you approve or allocate loan funding to a borrower located within a larger urban centre?

Mr. Kay: Primarily when you look at some of the value-added, some of the food processing, you'll see that those would be located in an urban centre, but obviously they would have an impact far beyond that into rural communities.

Mr. Gotfried: Great.

Mr. Chair, I'm going to cede my time to my colleague Mr. Drysdale.

The Chair: Absolutely.
Mr. Drysdale.

Mr. Drysdale: Thank you, and thanks to the staff for being here. I know you have lots of qualified people behind you.

You know, I think the crop insurance program has been working very well so far. Last fall was pretty trying, and there's been lots of angst out there over the winter. People had been fairly happy, but lately now with crop inspectors, they had to wait for that, and with the late snow all of a sudden, I've had some complaints. People are ready to start combining, and they're told: don't start till an inspector looks at it.

I know that you're doubling up on staff and trying to get to these as quickly as possible. I had a complaint last week by one farmer. He was wanting to get going, but he had a lot of wildlife damage. There was a herd of 300 elk that came into a wheat field, which was

partly combined last fall. You could see pictures of the stubble. The inspector looked at it, and the place was like a barnyard because if you get 300 elk in the mud, there is nothing left. The inspector said: "Well, there's no viable crop here. I can't evaluate it, so you're not going to get anything for it because there's not a viable crop." The guy was quite upset when he phoned me. I don't know if you can explain that one or not.

Mr. Kay: Thank you for that question, Member. The challenge we have with something like that situation, which we've seen a little bit of, is that there are a number of clients that don't necessarily have crop insurance, and they're looking for payments on the wildlife damage program. What we need to do to protect the integrity of the program is assess yield. It's difficult for us to come into a field for a producer that has crop insurance, assess a zero yield, and pay a crop claim, but then go on to a wildlife claim and pay out as if there was a yield.

It's extremely important for the wildlife program – the federal government plays a significant role. It pays, you know, roughly 60 per cent of those indemnities. So it's incumbent upon our organization to ensure that we maintain that integrity. Unfortunately, if there's no yield assessed to that crop, in terms of the federal government, in terms of the province, then a wildlife claim, really, is difficult to pay out on that claim. For sure there are frustrations with clients. We've come across that a few times in the past week or two. Unfortunately, that's the design of the program, and we need to maintain that integrity.

Mr. Drysdale: So you're confirming, then, that if it's totally destroyed, the guy gets nothing because there's no viable crop.

Mr. Kay: In terms of what the federal government and the provincial government would say, there wasn't a viable crop to begin with. And it wasn't the wildlife that caused the damage. It was the weather, and it was unharvested acres.

Now, we're trying to make sure we're flexible, and we're working with clients. We're having those conversations, and we're doing everything we can to work with them. If there is a viable crop and if we recognize that there's wildlife damage, we will pay those claims. A lot of what we've been doing in the last week or two on the inspections relates to the wildlife program, and we're going to pay out significantly more money on that program than we have in a long time.

Mr. Drysdale: Yeah, that's understandable because there's more crop left out than there has been for a long time.

Mr. Kay: For sure.

Mr. Drysdale: And that's the problem when you get these large herds of elk. They can destroy lots in a hurry. You know, I'm a little disappointed to hear that, but I'm sure we'll work through it.

Mr. Kay: We will.

Ms Yee: Yeah. If I might supplement that, I think it's important – and we've been talking about it – to have the ongoing conversations with the federal government because this season has really put us to the test, and we'd like to revisit the design of the programs.

The Chair: Okay. Thank you, Mr. Drysdale.

We will start with the three-minute rotation for written questions to be read into the record for response. We can start with Mr. Barnes.

Mr. Barnes: Thank you, Mr. Chair, and thank you, all, for your work. I just have some quick questions that I'd like to read into the record for answers later, please.

First of all, during the time the interim board was in charge, a constituent of mine was denied coverage because a strip of hail-damaged crop was supposedly done incorrectly. She appealed but was denied. Will the new board be examining appeals heard by the interim board to ensure they were done correctly?

Second question: wheat Fusarium. A constituent had been using the same seed for many years and never had a problem with Fusarium, so he did not test. When the crop insurance claim was processed, AFSC said that he was not eligible for reimbursement as he did not have his seeds pretested for Fusarium. He did sign an affidavit and sent his original seed to AFSC, verifying that this was the same seed he planted with. How long do cases like this take to process, and when will my constituent hear back if he is eligible for a crop insurance payout? Thank you.

Third question. What is AFSC doing to ensure that farm innovators such as my constituent who grew red lentils are not penalized by inadequate crop insurance options?

Fourth question. AFSC had a memorandum of understanding with the Minister of Municipal Affairs that was signed on April 29, 1975. What is the purpose of this memorandum, and have both sides dutifully abided by it?

Thank you.

Mr. Schneider: I just have one more. What does AFSC do to ensure that it has adequate crop insurance adjusters in place?

The Chair: Thank you, Mr. Schneider.

We will move on to the next one, which is from the government side. Mrs. Littlewood, if you could start.

Mrs. Littlewood: Sure. Thank you. On page 23 of the AG's report recommendation 1 states that there is a need to "clearly articulate the credit needs of the agriculture sector in Alberta, which should drive its lending activities." Given that over \$1.7 billion was provided via farm loans and almost \$400 million in commercial loans, can you discuss the steps the department has taken to make sure that lending needs are made clear?

Next question. How does AFSC support agricultural producers when Alberta's producers experience challenging growing seasons like we saw just last year or hailstorms or market fluctuations?

Next question. I understand that AFSC provides loans through their value-added and agribusiness program. Will growing the value-added and agribusiness industry be a goal of the new board? If so, how will the goal be supported?

Last question. The AG's report highlighted the fact that AFSC's lending portfolio grew "from \$1.01 billion in 2007 to \$2.16 billion in 2016." Given that AFSC offers loans for farms, commercial operations, agribusiness, and value-added enterprise, can the deputy minister discuss the criteria used to determine loan approval?

Thank you, Chair.

The Chair: Were there any other questions from the government side? No other questions?

Mr. Gotfried.

Mr. Gotfried: Yes. Thank you, Mr. Chair. I'd like to just go back to the idea around Economic Development and your relationship with them. We've got some coal mining areas – Hanna, Forestburg, Grande Cache, and others – that are going to be facing serious loss of employment and economic sustainability. Many of the farmers in the area, from what we hear anecdotally, actually have part-time

employment in the coal mines which are there, and it concerns me that we don't have a concerted effort between yourselves and Economic Development to reinvest in those communities to try and flatten out the impact of the shutdown of the coal plants. Can you explain to me whether those are ongoing and whether there are any thoughts to bringing that into the lack of strategic direction as pointed out by the Auditor General?

Ms Yee: Is that to be answered or read into the record?

Mr. Gotfried: It can be read into the record. That's fine.

The Chair: Yeah. This is for written responses, sir.

Mr. Gotfried: That's fine.

The Chair: Is that all of your questions for written responses?

Mr. Gotfried: It is. Thank you.

The Chair: Mr. Drysdale, you have a request for . . .

Mr. Drysdale: So these are just for written responses now? Then I'll skip it because this one is . . .

The Chair: Are you sure? You can read it for them to respond.

Mr. Drysdale: Well, I know that AFSC has done a lot of good work to help beginning farmers over the years, and I actually was one of them at one time. When this loan program was first brought in, interest rates were 22 per cent. I know that a lot of people here can't understand that. When you're a beginning farmer and you get a rebate to 9 per cent – you know, 9 per cent today is still a lot of money, but, believe me, it was a whole lot less than 22 per cent

when you were starting out. So for the Auditor General and different people to imply that AFSC is the same as ATB – you know, today the difference isn't as big when you've got really low interest rates.

The Chair: Mr. Drysdale, do you have a question that you'd like a response to?

Mr. Drysdale: Okay. The question is, you know, strategically, going forward, how do you see that you differ from ATB? I know that you've tried to answer that today. You know, when you look at the possibility, interest rates could be 20 per cent again. So how do you differ in your strategic . . .

9:50

The Chair: Was that all, Mr. Drysdale? Okay. Thank you.

All right. I would like to thank the officials from the Ministry of Agriculture and Forestry and from the Agriculture Financial Services Corporation for attending today and responding to the committee members' questions. We ask that responses to outstanding questions from today's meeting be provided in writing and forwarded to the committee clerk within 30 days. Thank you.

Are there any further items for discussion under Other Business?

If not, the committee meets next Tuesday, May 16, 2017, to hear from the Ministry of Health. The committee meeting is scheduled from 8:30 a.m. to 10 a.m., and the premeeting briefing is at 8 a.m.

Would a member move that the meeting be adjourned? Lots of volunteers. Mr. Malkinson. There we go. All in favour? Any opposed? Carried.

Thank you very much.

[The committee adjourned at 9:51 a.m.]

