Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, September 15, 1981

Chairman: Dr. Reid *1:30 p.m.*

MR CHAIRMAN: Good afternoon, ladies and gentlemen. We'll try to get into the afternoon's business and see how long it takes.

This afternoon we have with us the Minister of Tourism and Small Business, also a member of the Alberta Opportunity Company staff. I'll ask the minister to introduce Mr. Parker and, if he wishes to make any initial statement, to go straight on with it from there.

MR ADAIR: Thank you very much, Mr. Chairman. The gentleman on my right is Mr. Roy Parker, the managing director of the Alberta Opportunity Company. Roy is here with me to assist in answering any questions you may have.

Mr. Chairman, if I might just make a few opening comments relative to where the Alberta Opportunity Company is. As I started off a year ago, I indicated in my comments then that the range of loan approvals for the various branch managers, the loans officers, the deputy managers, and the managing director, has not changed. In other words, the loan approvals in the $30,000 to $50,000 range can be approved independently by the branch managers; up to $100,000, by the managing director; and over that range to the $250,000 range, by the loans committee made up of the managing director, the deputy managing directors, and the senior officials. Loans beyond $250,000 are then recommended, after approval by the loans committee, to the board of directors. They can approve them, and they meet twice a month. Any loan over the $750,000 range has to go through that same process: the approval by the loans committee, recommendation to the board of directors, and from the board of directors to the cabinet for final approval.

I should point out that this past year the Alberta Opportunity Company has opened up new offices in four regions within this province. They are in the centres of Vermilion, Brooks, Red Deer, and Peace River. The number of loans handled to March 31, 1981: 304. The total dollars loaned out: $31,864,596.

One of the interesting points I would venture is the average loan size. Since the incorporation of the Alberta Opportunity Company and with the increases in the loan amounts, the average loan has increased to a value of roughly $97,400. That's up from about $58,000 some years ago. A lot of that has to do with the size of the loan applications.

It might be appropriate for me to indicate that in the disbursement of the $31 million in loans this past year -- roughly $33 million -- that was made up of funds that have been paid back from existing loans and which are recycled or are part of a revolving account with the Alberta Opportunity Company. In the case of that year's lending, some $15.4 million was recycled, along with the Company's cash flow of $4.2 million, then the application for an additional $15.8 million, for a total of roughly $33 million provided to the citizens of Alberta. It should be noted, too, that in the existence of the Alberta Opporunity Company no loan has been refused for lack of funds. I think that should be pointed out very clearly. The Company has capitalized

$150 million. Presently, as of last March, roughly $106 million has been utilized to provide loans to citizens throughout the entire province.

In the area of where those loans are made, they range to the smallest community, in the sense of a business along the Mackenzie Highway where there isn't in fact a community but a service centre; to a small community at the border, Indian Cabins; right down to Manyberries, or wherever. Loans are also made to industry or to manufacturing or the service centres including, I might add, the metropolitan centres of Edmonton and Calgary.

I think the distribution of those loans is a key figure; for example, the distribution of loans in northern Alberta. This past year has seen 33 per cent of the loans made in northern Alberta, 21 per cent in central Alberta, 28 per cent in southern Alberta and, when you get down to Edmonton and Calgary, some 20 per cent. I'll just stand to be corrected here. Seven per cent of them are made in Edmonton and 11 per cent in Calgary. So there's been a fair distribution of successful loan applicants in the province throughout the various sides of that.

I think it is also of interest as to what particular types of business they were made to. In the manufacturing area, a total of 28 per cent of the loan disbursements were made in manufacturing. That was food and beverage, agricultural products and machinery, furniture and wood products, metal fabrication, structural and vehicular manufacturing, textiles, clothing, and other manufactured products. Of course, the major portion goes to the service industry. That covers the tourism and entertainment field -- a fairly large portion of that, roughly 17 per cent. Twenty two per cent to the area of personal services, and you've got transportation, construction, business services, and other services. So there is a distribution throughout the province in those particular areas.

Having said that, Mr. Chairman, possibly we could entertain questions.

MR NOTLEY: Mr. Chairman, I have several questions. The minister has noted that there has never been a loan turned down for want of funding. But of course the question of the rules of the game in terms of the procedures used and whether or not it's a lender of last resort and what have you, can have a very significant impact, it would seem to me, on that question. My question to you first of all, Mr. Minister, looking at the Alberta Bureau of Statistics, the latest figures I have show a rather significant decline in the small business share of the provincial income from 1970 to 1979, down from 6.2 per cent to 2.8 per cent. That's page 55 of the most recent set of statistics compiled by the province. That compares to a national figure of 5 per cent.

Now, because the Alberta Opportunity Company is, in my judgment, perhaps the most obvious vehicle for diversification, particularly with respect to the small business sector in Alberta, I suppose the first question might be: what is the reason for this decline, and what role can the Alberta Opportunity Company play in switching it around?

MR ADAIR: Mr. Chairman, I'm going to defer the first part of that question to Mr. Parker. I don't have at my fingertips a response to the percentage decline you have. On the other side, I think one should very clearly identify the fact that the Alberta Opportunity Company does have a major role to play in assisting small business and, I guess we could say, more directly in smaller communities within the province of Alberta. When the Alberta Opportunity Company was originally created, it was to fill a gap, if I can use that term, where in fact there appeared to be very little recognition by the conventional lending institutions of wanting to get involved in loans being made to centres a fair distance from wherever they may be located in primarily the metropolitan centres of Edmonton and Calgary. So having created the Alberta Opportunity Company and making the provision that as a lender of last resort we would provide funds to the small business community at a lower rate than the conventional rate, whatever that rate may be, we have played a very important part in the make-up of the province of Alberta over the life of the Alberta Opportunity Company.

Mr. Parker, if you might respond to the original part of the hon. member's question, relative to the decline in the small business ratio.

MR PARKER: As I understand the question, it was that the percentage of provincial product has declined from '72 . . .

MR NOTLEY: 1970 to 1979 are the years we're looking at. The most recent statistics prepared by the Treasury Department.

MR PARKER: I don't specifically know the answer to it, but my assessment would be that during this period of time we have entered into a large number of megaprojects which tend to increase the percentage of these large corporate giants' share of net provincial product. When these particular projects come to an end, then I think there'll be a resumption of a larger portion of the small business percentage of the figures in question.

MR NOTLEY: Just as a supplementary question to either the minister or Mr. Parker, surely one of the problems with megaprojects is the impact these projects have on the rate of inflation, the very things that have a great factor on small business, as well as the capital markets. I guess I would ask either the minister or Mr. Parker: as I look through the heritage trust fund and I see that we are loaning approximately $1.5 billion in securities to the banks in the form of short-term securities -- 30-day, 60-day, and 90-day bank notes -- and we still have this policy that the AOC is a lender of last resort, what that means is that many of the more promising small businesses, including rural small businesses, have to be turned down by two financial institutions before they can get to first base with AOC. If it's a reasonable prospect, the banks will pick them up at 22 per cent. Why not, even though it may be a first-class ticket to bankruptcy for that particular business?

MR PAHL: Twenty-four per cent.

MR NOTLEY: Twenty-four per cent, whatever the case may be, indeed. My point is: have we given some consideration in this time of absolutely uncontrolled interest rates which are having a punitive effect on small business in particular, to moving away from the AOC being a lender of last resort and to shifting over the $1.5 billion in short-term securities to the AOC? Now perhaps it would still have to be a modified form of lender of last resort, but at least changing the ground rules so that more businesses which are now forced to go to the Bank of Montreal, Commerce or, I might add, the eastern banks, could in fact go to an Alberta agency and use Alberta heritage trust fund money which we are now loaning to the banks at X per cent, and they then turn around and loan it back to our small business men at 24 per cent.

MR PAHL: Who should answer that?

MR NOTLEY: I'll put it to the minister. I think it's essentially a policy question, because it's one of the things we have to sort of wrestle with when we look at recommendations.

MR PAHL: Mr. Chairman, perhaps before he answers that I'd ask that he also consider the same criteria for every other individual in our society who lends. I guess I'm trying to suggest that it's just a bit off the mark.

MR CHAIRMAN: I was having a little bit of concern about where we were going with the discussion, but I suppose that if the minister wishes to, he could answer on a philosophical basis. But it's a bit difficult to answer on a finite basis.

MR NOTLEY: On a point of order, Mr. Chairman, it most certainly is not. There are really two important aspects here. In our consideration of the report, we have an assessment of where the money is invested. About $1.5 billion of that money is now loaned, in one way or another, to commercial institutions that loan it back to us. We have an Alberta Opportunity Company, which is a creation of the Alberta Legislature and which is $100 million of investment from the heritage trust fund. The question very simply is: are we giving some thought to moving away from the AOC being a lender of last resort or to modifying the rules and in fact shifting a major portion of the money we are now lending the banks so they can lend back to us, to an agency which we have created and which we have partially funded from the heritage trust fund?

MR ADAIR: Mr. Chairman, if I may respond to the question about whether we are looking at any alternatives relative to the prospective borrower, I guess you could say, from AOC as a lender of last resort. At this particular point in time we have maintained the lender of last resort concept. One shift we have made -- and I think it's important to state that at this time -- is that as a result of the higher interest rates and some of the problems we see out there in the business community, we have asked the Alberta Opportunity Company to look at the possibility of some refinancing.

I think it's also clear to point out that we are not in competition with the private sector lending institutions out in the community. For example, it's not my understanding that the banks will lend money, nor will the Alberta Opportunity Company, to someone who appears to be headed down the drain. But where a client may come to the Alberta Opportunity Company and have some difficulties in his present financial situation, and with a new service the Alberta Opportunity Company now provides as a result of some discussions we've had over the past year, where they're now doing counselling services with clients and prospective clients, they can determine the position of that particular client from the standpoint of whether there should be some consideration to refinancing. Some refinancing has been done to date. Roy, you might respond to part of that. I'm not sure of the number of dollars that have been involved in that, but there has been some. I guess refinancing occurs where it appears the client is going under, under the bank's rates, but could maintain his level with our rates. I guess it would be fair to put it that way.

MR PARKER: Yes, this is the criterion: if we can save a business that will be going under under its existing financing but our financing would allow it to at least maintain a break-even, we will do this. If it is obvious that no matter what happens, who finances, they are going to become insolvent, then we step aside and let the people with the financing resolve the problem.

MR NOTLEY: Mr. Chairman, a supplementary to Mr. Parker. Certainly no one is suggesting that you should be running around loaning money to businesses that are going to go bankrupt and that there is no hope. That's not the issue. In fact, it's the reverse case: it is the businesses that in fact are now fitting in under the terms of the bank. It's whether or not we're going to in fact move away from or modify the lender of last resort proposition so that X business, which can get that loan from the Bank of Montreal at 24 per cent but would be in a much healthier position if it could get it from the AOC if they can go to the AOC first, instead of having to be turned down so, from the bank's point of view, they are somewhat of a risky proposition. In short, whether or not we are prepared to see the AOC move into a little more aggressive role, perhaps in competition with the banks; whether that consideration has been entertained bv the board of the AOC in terms of making recommendations to the government.

MR PARKER: We reviewed that at our last policy conference, and it was the board's decision to remain a lender of last resort.

MR ZAOZIRNY: A supplementary question, Mr. Minister. It arises from a comment you made earlier in response to a question from the Member for Spirit River-Fairview. While the minister has pointed out that some loans have been made by AOC in Edmonton and Calgary, it is my understanding that there are many instances where, had the applicant been planning to establish a business other than in Calgary or Edmonton, the application may well have been approved. But because the intention is to locate that business in Calgary or Edmonton, the application has in fact been denied. This gives rise to some particular hardships, I believe, where you have persons who have established homes and families -- children going to school in Calgary, for example -- and it just isn't feasible for them to relocate in a rural or small community. So I would appreciate some advice from the minister as to what extent loans are being denied or declined simply because they aren't related to businesses wishing to establish in a smaller community. Are there any percentage statistics available on that? Can you let us know to what extent that is occurring?

MR ADAIR: To start with, Mr. Chairman, I should very emphatically state that to my knowledge there are no loans turned down in the metropolitan centres of Edmonton or Calgary strictly because they happen to be from Edmonton or Calgary. The standard practice for the Alberta Opportunity Company has been with the base rate. They can go up as high as 3 above the base rate for the metropolitan centres of Edmonton and Calgary and, where all other factors have been considered, i.e. they have been turned down by the conventional lending institutions, that would be considered. Loans have been made in the metropolitan centres of Edmonton and Calgary, but most of the applicants who may come to us are in a position to obtain funds in the metropolitan centres. We have not -- and I will ask Mr. Parker to verify that -- turned down a loan application in the two centres simply because it came from Edmonton or Calgary. There were factors related to availability of funds from another conventional lending source or other reasons for the turndown.

MR PARKER: That's it in a nutshell, yes.

MR ZAOZIRNY: Then if I could just clarify that. The minister made reference to whether the applications emanate from Calgary or Edmonton. By that I presume he means whether the intention is to establish the business in Calgary or Edmonton. You were saying that to your knowledge there are no instances and certainly no criteria were established which would deny an application if in fact the intention is to establish that business in Calgary or Edmonton, provided it meets the other criteria that would make the loan application successful with AOC.

Just one further supplementary on that same subject. Could either of you gentlemen advise as to what kind of circumstances would give rise to a small business application in Calgary or Edmonton obtaining the same preferential rate of interest being granted to establish in the smaller communities? Are there some instances where they would obtain the same preferred rate that would apply to loan applications in small communities?

MR ADAIR: If I follow the question, are you asking if a small business in, say, the metropolitan centre of Calgary were to apply for a loan, all other factors being equal, could they obtain the same preferred rate as a small business in a small community? No, I guess it would be fair to say that direct in that sense. Initially, the idea behind it was that we created a base rate and, albeit that a loan in Calgary could be approved at that base rate or up to 3 per cent higher, that would relate to the two metropolitan centres, whereas if you were a small business, 25 employees or less and 10,000 population or less small centre, you could get it for the base rate or as low as 2 per cent below that. So there is a differential between the metropolitan centres of Edmonton and Calgary and the remainder of the province of Alberta.

MR ZAOZIRNY: Then following up on that, while I applaud the efforts of the government to encourage a spread of the economic growth in this province, is consideration being given to establishing a policy whereby the small business man in Calgary or Edmonton gets the same kind of break in terms of financial assistance, including rate, as do small business men elsewhere in the province?

MR ADAIR: I think the best way for me to respond, Mr. Chairman, is that that point has been raised on a number of occasions. We are continuing to look at it, but the original thrust has not appeared to have changed. I say "not appeared to have changed" in the sense that the conventional lenders still appear to be willing to lend to the businesses in the metropolitan centres to a greater extent than they are prepared to lend to businesses in other areas. So albeit that that has been raised and we continue to look at it, we have not considered changing it at this time.

MR ZAOZIRNY: Just one further comment. Without meaning to be argumentative, if it's the case that in order to have an application considered, one has to have been turned down by two institutions, then surely in those instances where an application emanates from Calgary or Edmonton, they have to have met that criterion in the first instance. So it would seem to me that it would be reasonable for the same policy and the same type of financial assistance to be afforded to a small business man in Calgary or Edmonton as applies elsewhere throughout the province.

MR ADAIR: I can appreciate the hon. member's concern. I think the best way of my responding to that is that all other things being equal -- the turndowns from the conventional lending institution, the application meeting all the other criteria -- that applicant may well receive the base rate, which is the lowest rate that could be provided in the metropolitan centres. That may be the same rate as would go to a small business in a small community at the high end of the scale, because we start with the base rate and work 3 up or 2 down. So hypothetically you could get a loan approved in Calgary for the same rate as a loan approved in Stettler, for example, all other things being equal. But they would be based on the individual application in its own merits.

MR PAHL: Mr. Chairman, apparently there are lots of supplementaries from the urban members, and I will only add my editorial comment that I'm pleased to see that another member has joined my cause to remove the bias against urban areas. Mr. Chairman, to the minister, I feel very strongly that although there may be more people being able to say no, in financial institutions in the city, some of the obstacles faced by small business in urban areas are greater. I would add my voice and my concern to, I'm sure, several of my colleagues'. Thank you.

MR KNAAK: Mr. Chairman, I too would like to support my colleagues in expressing their concern, if in fact there is evidence that the rates to a small business in the urban centres are not the same as they are in the rural areas. The main reason for asking this question was for clarification with respect to the investments of the Heritage Savings Trust Fund. The questions from the Member for Spirit River-Fairview left the impression that the trust fund was lending funds sort of through the Alberta Opportunity Company to small business, but in fact from the statement it appears that the Alberta Opportunity Company is paying market interest rates to the trust fund and that the subsidy that results, or the discount from that rate, is funded through the budget of the minister. Is that correct?

MR ADAIR: Mr. Chairman, that is correct. The moneys borrowed by the Alberta Opportunity Company from the Heritage Savings Trust Fund are borrowed at current market value, whatever that may be. The initial provision of funds to the Alberta Opportunity Company included that the first $50 million be interest free. That interest is paid for through the departmental budget of the Department of Tourism and Small Business. But to answer your question specifically, we do pay the going market value for funds from the Heritage Savings Trust Fund, as do all other borrowers.

MR KNAAK: Thank you. The question I have, then -- and I think it's a concern that most of us have for small business, not really being able to find an effective way of being neutral and at the same time helping small business. I'm wondering if the minister is in the process or has developed any policy relating to the trust fund -- and I'm not recommending it; I'm just asking -- with respect to venture capital funding. My own view is that if there is a policy, venture capital should come out of program budgeting rather than the trust fund. Is the minister or his department working on any aspect of venture funding that relates to the trust fund?

MR ADAIR: My best response to that is that from the department's point of view, yes, we're giving some consideration to the possibility of some venture capital suggestions and recommendations that we may bring forth. They're not related to the Alberta Opportunity Company, but they are related to the

Heritage Savings Trust Fund in that sense. We're in a very preliminary stage of that exploration of possibilities.

MR D ANDERSON: Mr. Chairman, back to the question regarding the difference in interest rates for companies not located in the urban centres versus those that are in Calgary or Edmonton, is that part of the attempt of the government to work towards diversifying the economy? If so, is that working? Are there more companies outside Calgary or Edmonton that are not related to our primary industry, the oil and gas industry in particular? Or is that not true? Do we find that in Calgary and Edmonton we have as diversified a number of industries that are funded by the Alberta Opportunity Company as in smaller centres?

MR ADAIR: Mr. Chairman, that's probably the key to the success of the Alberta Opportunity Company at this point. It does tie directly to the diversification program, along with the fact that as I had said earlier, there was or did appear to be sufficient funds available to the businesses in the two metropolitan centres.

To give you an example, the number of successful applicants range from all sizes of community in rural Alberta as well as the other centres of rural Alberta -- I'm speaking of the Grande Prairies, the Red Deers, the Lethbridges, the Medicine Hats, the Lloydminsters, you name it, right down to the smaller communities of 65 to 70 people -- in essence providing, particularly in the service industries, a major impetus for the diversification. As a result of that diversification, one of the major benefactors has been the tourism and hospitality industries: the facilities on stream and provided by the private sector out in those rural areas and that were not there before.

MR D ANDERSON: Mr. Chairman, to the minister. Thank you for that outline. I think that's an important dimension. Still, the specific question is: do we have more companies that we're funding in the Calgary and Edmonton areas that are related to the oil and gas industry in particular than we do in the outlying areas? Is that a reason for what could be called the discriminatory rate of interest charged between those companies? Is that one of the reasons? I know you outlined another reason. Is that one of the reasons?

MR ADAIR: To my knowledge, I would say no, there is no differential in that. But I would ask Mr. Parker to respond a little better.

MR PARKER: As far as those related to the oil and gas industry are concerned, there are very view in Calgary and Edmonton that we have dealt with. Most of ours have been in outlying areas, kinds of service businesses relating to the periphery of the oil and gas business.

One of the things we believe, as far as the difference in the interest rate goes, is that it doesn't give an advantage to the smaller centres, but it gives them a chance to compete equally with the major centres in that the cost of receiving your merchandise and doing business in a smaller centre is generally greater than it is in a city like Calgary or Edmonton, where you could have your merchandise delivered without freight charges or with minimal freight charges. The competition among banks in Calgary and Edmonton is significantly greater and you can get a better deal on your interest rate than you can quite often in a one-bank town. As a result, we feel these interest rates are giving them a chance to compete on an equal footing with the cities and maybe get a better deal for other businesses in the community due to our presence in the lending field.

MR D ANDERSON: Mr. Chairman, just for clarification, the director is saying that the difference in interest rates is not a tool for diversifying the economy but is probably a tool for decentralizing it out of the two major centres -- decentralizing the growth rate of the province, et cetera.

MR PARKER: Yes, I would say that it helps decentralization, if you want to call it decentralization, and helps the non-urban areas participate to as great a degree as possible in the growth of the province and the diversification.

MR R SPEAKER: Mr. Chairman, to the minister. I mentioned to the Premier the other day that less than 1 per cent of small businesses in Alberta even make application or become involved in the Alberta Opportunity Company. Travelling around to a number of the small centres in Alberta -- and I'm sure it's in the urban centres as well -- there's a pressure on the businessmen, related to interest rates. There's no question about that, like many others. Today you've indicated that potentially you're looking at refinancing.

The question I'd like to ask is: what types of applications are coming to the Alberta Opportunity Company at this point in time? Are there more requests for refinancing or are there more requests for new financing? What is the breakdown of those applications at the present time? The reason I ask the question is that I think it reflects directly on the potential direction AOC should go from this point.

MR ADAIR: Mr. Chairman, if I might just comment on the percentages up to March 31, then maybe have Mr. Parker respond beyond that particular point. The distribution of loans, successful applicants, is roughly 27 per cent to new businesses that are started up in the province of Alberta and 60 per cent to expansions of existing businesses. Then there's the other area where someone is purchasing a business from someone else; there's an existing business that changes hands. That's roughly 13 per cent. I'm not sure, in the area of requests for refinancing, what that percentage would be. I would ask you to respond.

MR PARKER: Obviously the establishment of new business doesn't relate to refinancing. It's in the expansion of existing businesses. We have found that a relatively small proportion of our applicants are coming for refinancing. Most of the people having problems with their interest rates have it in relation to their operating credit, their revolving line of credit with their chartered bank. We're not in that business. We provide medium-term financing. So those are kind of outside the pale as far as we're concerned.

The ones we are seeing are people who, within the past year or two, have got on capital expenditure projects where they are largely capital-intensive businesses and they're on a floating rate. I would venture to say that we probably have half a dozen we have looked at and attempted to assist. I think in most cases we have. The problems a business faces relate to the extent of their term debt. If you have a motel, for instance, you are capital intensive and are very heavily affected by this. If you just have one or two pieces of equipment and they don't relate very significantly to your overall level of sales, then if the interest rate goes up 10 points it's not really going to put you in a problem. It's only the few with the capital-intensive situations that we have come in contact with.

MR ADAIR: One point that should also be made is that in the process of refinancing or even approval of any loan application, one of the major pluses we have right now is the fact that the term is fixed for the life of the loan. That basis is still maintained in AOC. It's renewed after five years now. In essence, until this summer, the life of the loan. We've adjusted that to a five-year. So there is at least some stability to the applicant when he does have a loan approved there.

One of the problems we face in our society, of course, is the fact that you can't get anything but a floating rate anywhere right now. So where you're looking at, say, refinancing and that has been possible, that has given some stability to that particular business. I think that's a most important point that I overlooked in mentioning a little earlier.

MR R SPEAKER: Mr. Chairman, in terms of the operating loan, has AOC looked at that as an area to get into or to be involved in? I think most of the business people -- and I talk on the street -- the first thing they talk about is their cash flow. Their operating money from the bank is causing this type of effect on their business. Is there any consideration of going into that area?

MR ADAIR: We've spent a fair amount of time discussing it to this particular point. I might point out one other area, the area of inventory financing. The difficulties as we see them in having the numbers of people to look after that kind of financing situation, that's been a major problem for us. I won't say no; I will say we will continue to look at it and have looked at it -- not with any degree of success -- as to some recommendations we might make to my colleagues at this time.

MR LITTLE: Mr. Chairman, would the minister be prepared to advise the committee as to the failure rate -- that is, the percentage of loans that go bad or become bad debts -- and how our failure rate or bad debt rate compares with other lending institutions such as chartered banks, trust companies, and credit unions?

MR ADAIR: Mr. Chairman -- and I might get Mr. Parker to qualify it -- the loss ratio of AOC is at roughly 8 to 10 per cent. That is considerably higher than the conventional lending institutions. It's my understanding that their loss ratio is 2 to 3 per cent. If you'd like to qualify that, I believe that's pretty close to it.

MR PARKER: Well, it's a little on the high side for them, but the 1 to 2 per cent is quite an ample amount for them. And ours is 8 to 10, yes.

MR ADAIR: It might not hurt for me to indicate here, because the question that did come up last year, and I have the information with me here, was: what percentage of loans did we have in arrears? Albeit a year ago it was roughly 17 per cent of loans that were in arrears for any number of reasons -- as a matter of fact, it could be delay in the mail strike over this past summer, management problems, or whatever it may be -- this year they're roughly 15.6 per cent, down slightly from what they were a year ago.

As a result of that, and that historically being a part of the Alberta Opportunity Company's concerns over the years, they have brought into play a counselling service to their clients. It's a one-on-one counselling service that is available to clients who may be experiencing troubles, or even prior to an application being made, they would sit down and provide them some counselling services to ensure that all things are basically on the table before they make application.

That is over and above what we in the Department of Tourism and Small Business do. In the Small Business division, we also have available a counselling service to the general public in the province. In some cases, at the request of the Alberta Opportunity Company we would provide a business analyst to work with their counsellor to assist a business in making its application or whatever may be the case when they are experiencing some difficulties.

MR LITTLE: Mr. Chairman, is the minister prepared or able to report the success of this counselling service, either on advice to a person first applying for the loan or a person who has gotten into difficulty? Are you able to report that as a result of the counselling service, the business has been retrieved or has become successful?

MR ADAIR: What I'll do is ask Mr. Parker to respond directly because of his involvement in that area, but I think we can do that for you.

MR PARKER: Approximately half of the ones we get involved with in the secondary phase, where we have our management counsellors with them, are able to remain solvent and ultimately pay us off and continue on in business. The other half don't. If anything, I think sometimes by having these individuals in place, once they do their analysis, they can convince the man that it's time for the business to come to an end, that it doesn't have any future at all and can't be saved. Thus, by ending it quickly, we save him anguish and minimize his losses and the losses of other creditors.

MR LITTLE: Mr. Chairman, the final question calls for an opinion from the minister. Does the minister consider the loss incurred by the fund is justified by the amount of new business generated in the province?

MR ADAIR: The best way for me to respond to that particular question is to indicate yes, in the sense of the Alberta Opportunity Company serving as a lender of last resort, in essence a higher risk lender. Without question, we would be looking at some losses higher than the normal, conventional lenders would experience. I'm generally satisfied with our loss ratio being what it is, albeit on occasion it could be considered by some sources to be a little higher. I would think that the reason it is not is because of the direct personal approach AOC is making with the client in attempting to counsel him before and after. That has reduced, to some degree, that loss ratio to that 8 to 10 per cent factor.

MR ZAOZIRNY: Mr. Chairman, I'd like to shift the questioning for a moment to a more administrative matter, I suppose. It deals with the nature of security required by AOC on a successful loan application. As a practising lawyer in Calgary, I've had some modest amount of experience with clients who have been approved for a loan application with Alberta Opportunity Company for a relatively small amount, say $20,000 or $30,000.

As the borrower's solicitor I receive in due course documents from the AOC solicitor and on occasion have been astonished with the volume and the complexity of security that is demanded for a relatively small loan -- everything from fixed and floating charge debentures to chattel mortgages, postponement agreements, assignment of book debts -- where a conventional lender, I would suggest, might require a much more limited amount of security, perhaps a personal guarantee or something of that nature. I'd appreciate the comments, perhaps of Mr. Parker, who would likely have more direct knowledge of this matter, on whether, in the requirement of various security, AOC has given any consideration to trying to streamline their requirements.

The concern I have -- and this may sound odd, coming from a member of the legal fraternity -- is that in many instances the legal costs associated with placing these loans is higher than it need necessarily be, bearing in mind that AOC can still have appropriate security for the dollar amount being loaned. Could you comment on that, Mr. Parker?

MR PARKER: I think your point is well taken, and it's something we try to keep in mind at all times in review with our staff on a regular basis. We want to take enough security to give us suitable protection, but not the overkill you're talking about. On occasion this does happen, even with the best of intentions. I suppose the best way to look at it is to say that it's not totally at the expense of the borrower, because we pay for all the legal charges we incur. We don't put that to the account of the customer, as do most other lending institutions. So I think in a lot of cases it may be felt cumbersome, but not too expensive.

MR ZAOZIRNY: Thank you for that elaboration. I would further comment that surely the administration of those loans, when you have that volume of security documentation that is undoubtedly reviewed by not only your solicitors but by staff persons at AOC, could potentially increase administrative costs as well. So I would simply end by urging that that kind of review be conducted. You suggested that that is looked at from time to time. I would simply suggest that I've had some recent experience where there are still problems out there.

MR NOTLEY: Mr. Chairman, I have several questions with respect to interest rates. Correct me if I'm wrong, but the base rate is now 19 per cent, plus 3 per cent, minus 2 per cent. Is that correct?

MR ADAIR: At the present time, Mr. Chairman, that's what it is.

MR NOTLEY: The reason I ask that is that that seems like a very high base rate. I see we're loaning Calgary Power $20 million at 13.75 per cent and Luscar at 13.875. And I look at the most recent annual report of AOC and see the going rates of interest we're paying to the heritage trust fund. The question I put to either the minister or Mr. Parker or perhaps both: what are the criteria for developing the base interest rate? Why has there not been any change in the rebate? I believe 2 per cent was a figure developed in 1972 when the AOC first came into being. The base rate was much lower at that time, so in percentage terms the rebate has shrunk in terms of the impact on the small business. So I'd like to know the criteria for the base rate and why there really hasn't been any change in the plus or minus, in absolute terms, since 1972.

MR ADAIR: Mr. Chairman, to start with, the base rate is structured . . . Initially, when AOC was created, it was cost of money plus operating costs -- basically 3 per cent. That has not changed. That's to the advantage of the small business man in the province of Alberta.

The differential -- and I assume that was the second part of your question -- of small business, small community: as low as 2 per cent or as high as 3 per cent above that base rate. Your question related to why that has not changed. My best response to that is that the whole concept of AOC was to provide a preferred rate to the business community. That in effect has occurred. All other factors being equal, small town, small business loan today would be at 17 per cent. That's a preferred rate of basically 5 to 7 per cent below the normal rate presently in existence in the conventional lending institutions.

Now, that doesn't mean that all of them would be at 17 per cent. All other factors being equal, as I said, that's what it would be. It may be 18 per cent, 17.5, 18.5 or, in some cases, right at the base rate of 19. We have felt that to this particular point in time, that has met the needs of the small business community. The key in there is the differential between the existing lending rate -- in this case roughly 24 per cent, I believe it is -- and the existing rate that would be available to that person meeting all the criteria. So there is a preferred rate differential as high as roughly 7 per cent. That has been maintained throughout the life of the company, to this degree, other than when we had the freeze on some months ago when that differential became quite extreme and was causing us some difficulty. At one point we were in fact purchasing money from the Heritage Savings Trust Fund for higher than we were lending it out.

MR NOTLEY: But of course the total would be their number of purchases I see listed here, leading up to the $106 million, ranging all the way from 9.4 to 14.2. I'm looking at page 7 of the annual report. What is the situation in terms of the operation of the Alberta Opportunity Company? You indicated that from the initial start-up of the company, the first $50 million was advanced interest-free and that the Department of Tourism and Small Business is still paying the interest on that. However, I presume that with this interest rate, in fact beyond that interest shelter on that first $50 million, the AOC in fact operates, including an allowance for losses, on the interest rate that is charged.

MR ADAIR: I'll get Mr. Parker to respond to that.

MR PARKER: Yes, the first $50 million looks after the bulk of our operating costs, about $3.7 million. So you've got that thrown in there. Then the allowances for bad debt and write-offs are above and beyond that. What we aim for is to operate at break-even or a modest profit. With the difference between what we charge and what our money costs us, we expect to have this difference taken care of.

One thing I might point out from the previous question is that we do have these debentures at varying rates of interest. However, they are being repaid over a five-year term, so for those that were at 9.44 and 10 per cent and so on, a fifth of those or a portion thereof is repaid every year at current, higher interest rates, whereas our loans that were made with those funds are frozen for their term at the original interest rate.

MR NOTLEY: Mr. Chairman, I have one additional line of questioning. I'd refer both gentlemen to page 2 of the Alberta Opportunity Company annual report. It's with respect to the company's role in diversification -- not decentralization but diversification, moving into other than oil- and gas-based industries. Mr. Parker correctly pointed out that one of the reasons the small business sector has declined is because of the megaprojects and the heavy reliance on energy expansion and development. However, the question I would put to either the minister or Mr. Parker or both is with respect to the industrial incentive loans program. At the present time, through our ALPEP and other programs -- without getting into an argument but just stating a fact -- we are making substantial incentives available to the energy industry. One could argue whether that's good or bad or indifferent. But it just happens to be a fact: a billion dollars, in information tabled this spring.

Mr. Parker, my question to you in terms of the advice the company is giving the government: the industrial incentive loans program was an effort to provide some kind of incentive scheme for small business, and there was a forgiveness factor. But in fact that's been phased out. I see the figure from '78 has gone from $1.4 million down to $427,000. Where do things now sit in terms of the position on industrial incentives and that whole concept for small business at this time of high inflation?

MR ADAIR: If I might respond to start with, the basis of that Industrial Development Incentives Act provided loans prior to the formation of the Alberta Opportunity Company, and that was under the Alberta Commercial Corporation. They are being followed through and of course, as the requirements are met, written off. In AOC we have not considered that particular aspect at this point in time as being one we might revive, I guess you could say. That has been really a carry-on from the initial loans made prior to 1973, I believe it was.

MR NOTLEY: I realize that, Mr. Minister. My question was not what in fact has happened but what in fact is being considered now, bearing in mind that this was legislation once on the statute books and administered by the Alberta Opportunity Company on a phased-out basis. In view of the need to diversify the economy, is there any consideration to take a second look at the industrial incentive loans program?

MR ADAIR: My best response at this point is that we have not looked at this issue up to this point.

MR NOTLEY: Part and parcel of that question would be with respect to AOC loans under the Alberta North Agreement, Mr. Chairman. Is there any shared cost with Ottawa on those loans?

MR ADAIR: I'm sorry, Mr. Chairman. Might you just qualify that a bit?

MR NOTLEY: I believe some Alberta Opportunity loans are made in conjunction with the Alberta North Agreement.

MR ADAIR: I'm not aware of it.

MR PARKER: No, I'm not familiar with that.

MR NOTLEY: So there is no cost-sharing at all with Ottawa in any . . .

MR PARKER: We have on a number of occasions on DREE grants and nutritive processing. We've had quite a significant number of those, and we avail ourselves of them when . . .

MR NOTLEY: Those loans aren't ventured by the Alberta Opportunity Company? Then what percentage of that money would in fact be federal funds?

MR PARKER: Well, we make a loan to the client and the client deals with DREE and gets a portion of the funding -- 25 per cent, 30 per cent, whatever the terms are. But DREE do their own negotiating and make the deal directly. Then ultimately those funds are forgiven if he meets their criteria.

MR NOTLEY: So at this stage Alberta has no sort of complementary program.

MR PARKER: No forgivable loans, no. But we work with them to try to get these businesses the best advantage from the DREE funds.

MR NOTLEY: And are there any problems in terms of the Alberta North Agreement in terms of the Alberta Opportunity Company?

MR PARKER: No, not to my knowledge. We'd like more of them from the federal government, but to no avail.

MRS FYFE: I think my questions have pretty well been answered, but I just want to ask a question related to increase in interest rates. Mr. Chairman, you may call it out of order, because primarily the increase has taken place since the report was published. I just wonder if it is appropriate to ask if there has been any significant decrease in the number of applications because of the higher interest rates over the last months.

MR PARKER: No, our applications are continuing at a higher level than they were last year for the past three months. We have had no negative feedback in regard to our interest rates from applicants, or reduction in applications.

MRS FYFE: Could you draw from that that your rate of applications has remained higher than other financial institutions?

MR PARKER: I can't comment on what other financial institutions are doing. But compared to us at the same time last year, with a lower interest rate in effect, we have a higher level of applications and loans being processed.

MR D ANDERSON: Mr. Chairman, my question relates considerably to the one just asked. In looking at the Alberta Opportunity Company annual report, I note that this year considerably fewer applications are approved vis-a-vis the number of people who apply than has been true in the past three years. Does this indicate a tightening of the criteria used in approving applications, or is there some other reason the minister or the director could give us for that decline in the percentage of approvals?

MR ADAIR: To Mr. Parker.

MR PARKER: No, the decrease in the number of loans authorized as a percentage of total applications relates almost entirely to the difference in interest rate we were faced with as compared to the private sector. We were faced with a significant number of people who either had funds or could obtain funds from the private sector and could support them through the operation of their business, and were in fact rate-shopping. So I would say that had our interest rate been closer to market, we would have had fewer applications last year and a higher percentage of approvals.

MR D ANDERSON: Thank you. That clarifies it for me. But you can guarantee us that certainly no percentage of that is because you've tightened up the restrictions. There's no change in the criteria used in giving out those loans over the previous three years.

MR ADAIR: If anything, Mr. Chairman, there has been a broadening of the criteria in the sense that AOC are now looking at the possibility of some refinancing, which they were not doing at this time last year.

MR CHAIRMAN: Any other members with questions for the minister or Mr. Parker?

MR SINDLINGER: Mr. Adair, I just have two small questions. Is there a quarterly report prepared for the Alberta Opportunity Company?

MR PARKER: We have a quarterly financial statement that we prepare in-house, and we do semi-annual . . . Not a report like this, but just a statistical non-public review, which will be coming up in October.

MR SINDLINGER: Do you have a projected net income or loss for the first half of fiscal '81?

MR PARKER: I don't have it with me, and I can't recall the numbers, but we do have our financial statements projected by quarter.

MR SINDLINGER: Have you projected to the end of fiscal '81 as well?

MR PARKER: Fiscal '82? Yes.

MR SINDLINGER: Offhand, do you have any idea what the net income for that is, compared to the net income of 1980-81?

MR PARKER: We expect to have a loss in the neighborhood of $1 million. It's a loss smaller than last year, but a loss none the less. We'll still have a cash flow.

MR SINDLINGER: How often do the directors meet?

MR PARKER: Twice a month.

MR SINDLINGER: Just a small question. I note they're paid about $10,000 per director. Is that correct?

MR PARKER: I'm not sure how much they get per director. It depends on the number of meetings they attend and the number of committee . . . We have special projects from time to time that require a director's involvement as well.

MR ADAIR: And it's also related to a specific schedule of rates for the Opportunity Company, as are other Crown corporations or the like for government. It's consistent with that.

MR SINDLINGER: Mr. Adair, I'm not familiar with the responsibilities of the directors in particular in this case. I just happened to note that there was a substantial change in directors' fees from 1980-81, from $80,000 to $128,000. Was that just a revision of the schedule? Any particular reason for it?

MR ADAIR: I would suggest that that was a revision of the schedule of fees, consistent with all the other ones.

MR CHAIRMAN: Any more questions for the minister or Mr. Parker? Thank you very much for appearing today and giving us the information about the Opportunity Company. We'll see you next year.

MR ADAIR: Thank you very much, Mr. Chairman, on behalf of Mr. Parker and I. It was a pleasure.

MR CHAIRMAN: Before the committee adjourns, we still have this question of next Monday when Mr. Planche can't be with us until 3:30. What are the wishes of the committee about meeting at 1:30 for other business or 3:30 with Mr. Planche? 3:30? Right.

MR SINDLINGER: Mr. Chairman, I wonder if we could just review what thoughts we might have in regard to our future timetable, especially in regard to this field trip to Kananaskis. I'm not familiar with the details of that.

MR CHAIRMAN: The future schedule is now next Monday at 3:30 with Mr. Planche, next Tuesday at 9 a.m. with Mr. Chambers, followed by Mr. Leitch. The following Monday, September 28, we will probably be getting into the review of the committee's work. The Tuesday will be the field trip to see the Kananaskis. Then subsequent to that, Mondays and Tuesdays until we get the report put together.

MR SINDLINGER: Has any thought been given to submission of recommendations by the members of the committee and how we will go about handling those?

MR CHAIRMAN: That will happen starting on Monday, September 28.

MR SINDLINGER: Are you asking for submissions by the 28th?

MR CHAIRMAN: I'm sure it will take longer than one day.

MR SINDLINGER: But would you like us all to have our recommendations given to you or given to one person for consolidation or arrangement on that day?

MR CHAIRMAN: If you have any specific recommendations you'd like to give to me prior to September 28, that's fine. But that's not a cutoff date at this stage. In other words, I'm trying not to be rigid.

AN HON MEMBER: We'll set a cutoff date later, Mr. Chairman.

MR CHAIRMAN: Yes, that's right. So in other words, it does not have to be by September 28. Is that what you mean?

MR SINDLINGER: Yes.

MR CHAIRMAN: Yes, that's correct.

The meeting adjourned at 2:38 p.m.